NOTE

This Microfiche meets the quality requirements of the American National Standard for Microfiche of Documents (ANSI PH5.9-1975). However, because of imperfections in the document from which it was made, it contains images that are illegible or difficult to read. The source document for this microfiche is the best copy that could be obtained prior to filming.

CIS Congressional Information Service, Inc
Washington, D.C.

S. HRG. 98-902

STRENGTHS AND WEAKNESSES OF THE FEDERAL CROP INSURANCE CORPORATION

HEARING

BEFORE THE

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

DECEMBER 2, 1983
DES MOINES, IA

Printed for the use of the
Committee on Agriculture, Nutrition, and Forestry

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON: 1984

36-721 O

S161-31

COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY

JESSE HELMS, North Carolina, *Chairman*

BOB DOLE, Kansas
RICHARD G. LUGAR, Indiana
THAD COCHRAN, Mississippi
RUDY BOSCHWITZ, Minnesota
ROGER W. JEPSEN, Iowa
PAULA HAWKINS, Florida
MARK ANDREWS, North Dakota
PETE WILSON, California
ORRIN G. HATCH, Utah

WALTER D. HUDDLESTON, Kentucky
PATRICK J. LEAHY, Vermont
EDWARD ZORINSKY, Nebraska
JOHN MELCHER, Montana
DAVID H. PRYOR, Arkansas
DAVID L. BOREN, Oklahoma
ALAN J. DIXON, Illinois
HOWELL HEFLIN, Alabama

GEORGE S. DUNLOP, *Chief of Staff*
J. ROBERT FRANKS, *General Counsel*
CARL P. ROSE, *General Counsel and Staff Director for the Minority*

CONTENTS

	Page
Jepsen, Hon. Roger W., a U.S. Senator from Iowa, opening statement	1

CHRONOLOGICAL LIST OF WITNESSES

Evans, Hon. Cooper, a Representative in Congress from the Third District of Iowa	6
Sprague, Merritt W., Manager, Federal Crop Insurance Corporation	10
Hallberg, Elizabeth, on behalf of "Hunk" Anderson, executive director, Agricultural Stabilization and Conservation Service of Iowa	14
Rutledge, David, president, Farmers Mutual Hail Insurance Co., Des Moines, IA, representing Crop Insurance Research Bureau	23
Risbrudt, Peter E., secretary-treasurer, Communicating for Agriculture, Inc	24
Gibson, Richard C., president, American Agrisurance, also representing Redland Insurance Co. and Crop Insurance Marketing, Inc	26
Lounsberry, Robert H., secretary of agriculture, State of Iowa	29
White, Don, vice president, Rain and Hail Insurance Service, Inc., Des Moines, IA	32
Gamrath, Tom, Gamrath-Doyle and Associates, Inc., Fairfield, IA	33
Fulwider, Robert E., representing Independent Insurance Agents of Iowa	34
Craggs, John, representing Loran Schultz, Schultz Insurance Services, West Des Moines, IA	36
Heck, Raymond, president, Iowa Soybean Association	43
King, Karol, representing Iowa Corn Growers Association	44
Kincart, Jerry, Davis County farmer	46
Miller, Leslie S., agricultural loan officer, Davis County Savings Bank, Bloomfield, IA	51
Booth, Russell, Union County supervisor, Farmers Home Administration	53
Engelkes, Roger D., executive vice president, Grundy National Bank on behalf of Iowa Bankers Association	55
Healy, James J., president, Farmers Production Credit Association, Cedar Falls, IA	57
Connolly, Richard E., Madrid, IA	63
Myers, Lawrence E., Dallas Center, IA	64
Lillis, John, Lillis Insurance Agency, Williamsburg, IA	69
Dudding, Al, Kossuth County, IA	70
Bruce, John, Morningside, IA	71
Johnson, Del, Warren County, IA	71
Hess, Jay	72
Mendenhall, Hope, Decatur, IA	73
Lacina, Don	74
Payne, Don, vice president, Iowa Cattlemen's Association, Ames, IA	76
Vande Haar, Rich	78
Teagle, Joy, Agri Business Insurance Consultants	82

APPENDIX

	Page
Evans, Hon. Cooper, a Representative in Congress from the Third District of Iowa:	
Statement	87
Statement before the Subcommittee on Conservation, Credit and Rural Development of the House Committee on Agriculture, Nov. 17, 1983	89
Sprague, Merritt W., Manager, Federal Crop Insurance Corporation, statement	98
Gibson, Richard, material inserted by: Private Industry Performance—Crop Insurance Program Authorized by 1980 FCIC Act	100
King Karol, representing Iowa Corn Growers Association, statement	101
Miller, Leslie S., AG loan officer, Davis County Savings Bank, Bloomfield, IA, statement	103
Engelkes, Roger D., executive vice-president, Grundy National Bank, statement	105
Parsons, Jack, farmer, Louisa County, IA, statement	106
Waggoner, Bobbie, assistant director, Des Moines field operations office, Federal Crop Insurance Corporation, statement	107
Kinney, Janet A., Alden, IA, statement	109
Laughlin, Michael, Oakland Banshares, statement	111

STRENGTHS AND WEAKNESSES OF THE FEDERAL CROP INSURANCE CORPORATION

FRIDAY, DECEMBER 2, 1983

U.S. SENATE,
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY,
Des Moines, IA

The committee met, pursuant to notice, at 9:30 a.m., at Rolling Prairie Inn, Hon. Roger W. Jepsen presiding.

Present: Senator Jepsen.

STATEMENT OF HON. ROGER W. JEPSEN, A U.S. SENATOR FROM IOWA

Senator JEPSEN. I would like to welcome you to this hearing. Agricultural representative Dave Hill is on my left, and Mike Neruda, who is my agricultural legislative assistant is on my right. Congressman Cooper Evans will be joining me shortly after his initial testimony.

I would advise you that all of the remarks that anyone may have here in writing will be entered into the record, so that you may read from those remarks or you may summarize them. If they are very long, I hope that you will consider summarizing and know the remarks will be entered into the record.

For the purposes of identification for the record, if you would, please, state your full name and your position or who you represent when you open with your remarks. For the Senate Agriculture Committee, this is a first in a series of hearings to explore the strengths and the weaknesses of the Federal Crop Insurance Program.

Can you hear me in the back, Curt? I'm pleased that we are able to begin these hearings under the auspices of the Senate Agriculture Committee in my own State. I want to thank everyone for coming.

When Congress overhauled and expanded the Federal Crop Insurance Program in 1970 the hope and the expectation was that the new program eventually would replace Federal disaster assistance programs.

It was also expected that Federal crop insurance would be expanded to cover all crops grown in the United States.

To put it bluntly, I am concerned with the present progress of the Federal Crop Insurance Program. Simply put, the original objectives of the program have not been met.

I can assure you that the Congress is in no mood to hand additional authority and responsibility to the Federal Crop Insurance Corporation until and when the crop insurance program starts living up to its original mandate.

Foremost in my mind is program participation.

Participation in the program is at unacceptably low levels. Iowa's participation level of around 17 percent is above the national average, and that is not saying very much.

For the program to succeed, it must operate on an actuarially sound basis. To achieve this, there must be adequate participation in the program.

In crafting the new program in 1980, Congress was advised by the U.S. Department of Agriculture that participation in the program by this time would range between 30 and 50 percent. However, at the present time, the national participation in the program is only 13 percent, and this is somewhat disconcerting.

Something is seriously wrong when this insurance program cannot attract more farmer participation.

If this continues, I have a feeling Congress will seek to abolish this program. Maybe it should be abolished. Maybe we should start all over and devise some program that is acceptable to farmers. Should it be turned completely over to the private sector?

Frankly, I'm perplexed about a program whose administrative costs are in excess of $100 million, and which provides so little assistance to the farmers.

The high level of farmer dissatisfaction with the program was made very clear to me during inspection of the drought areas in Iowa this past summer and fall. Subsequent conversations with farmers have only reinforced this feeling and convinced me that something must be done.

What I saw and heard prompted me to put into effect a three-pronged approach to a problem that was not going away:

In early September, I wrote Secretary of Agriculture Block requesting that he conduct an internal investigation of the program.

At the same time, I requested the U.S. General Accounting Office to examine the effectiveness of the program. I asked GAO to look at the amount of paperwork required to apply for crop insurance, and to suggest ways that the program could be improved to make it more attractive to farmers. In addition, I requested GAO to determine the reason farmers are reluctant to participate.

Furthermore, I convinced the chairman of the Senate Agriculture Committee will authorize a series of Washington and field hearings to examine the problem.

One thing I hope to ascertain today is why participation in the Federal Crop Insurance Program is so low. I also hope to get some insights into what can be done to improve the program.

Should the program be scrapped and some new approach taken? Should we explore the possibility of letting the private sector handle crop insurance? Should the Federal Government get out of the crop insurance business entirely? Is this feasible? Or, if the program is salvageable, what can be done to improve coverage and lower the cost of insurance?

I'm also concerned, and I have a feeling that the witnesses today will share this concern, about the paperwork requirement of the program.

Is the paperwork so cumbersome that the Federal crop insurance agent cannot be an effective salesperson for the program? Is the farmer

too perturbed over the program that he or she just says, "The heck with it, it is not worth it?"

As I said earlier, a primary purpose for offering Federal Crop Insurance was to replace the disaster programs offered by the USDA.

Those programs had been significantly criticized and had met with limited success.

The time is opportune to evaluate how crop insurance operates in offering protection from losses due to natural disasters.

We have just gone through the worst drought in this part of the country in the past 50 years. In fact, the drought of 1983 represents the first major test and challenge of the Federal Crop Insurance Program. In many respects, it was found wanting. At the same time, we found some interesting results due to these circumstances.

Statistics show that those producers who participated in the program found adequate protection from the damaging effects of the drought. In fact if you look at those producers who participated in both Federal crop insurance and the PIK programs, we found that economically they suffered the least.

This raises an interesting question. If properly utilized, is the Federal Crop Insurance Program a good vehicle for producers to practice sound risk management?

While PIK is a temporary program, and will not be offered for the 1984 crop of feed grains, producers will still have the option of participating in Federal crop insurance to help protect themselves from circumstances beyond their control.

In this hearing, and the ones my colleagues on the Senate Agriculture Committee will be conducting elsewhere around the Nation, I hope to find out whether or not the farmer decides to participate in the Federal Crop Insurance Program.

Today, we will hear from a superb slate of witnesses.

I hope all of you, the people the program was designed to work for, will expound on what should be done to enhance the program and what, if anything, needs to be done to see that the farmer, along with the taxpayer, gets the best program the Government can offer.

But before I introduce the first witness, I would like to note who will not be here to testify.

The reason an official from the General Accounting Office, the watchdog or investigative arm of the Congress, is not here today underlines one probable reason for the low participation in the program. I had requested the GAO review the Iowa aspects of the program in time for this hearing.

But it seems the Federal Crop Insurance Corporation, that is the agency overseeing this program, has been working from an obsolete list. This obsolete list was provided to the General Accounting Office to make the Iowa survey.

The GAO selected 225 Iowa producers from the list provided by the Federal Crop Insurance Corporation. When they attempted to contact those on the list they found it contained several names of people who were no longer involved in farming, some who were dead, and some people who could not be contacted by telephone.

Of the 225 producers on the list, GAO could not obtain telephone numbers of 53. Thirty were not farmers. Three were, in fact, dead.

Ten refused to be interviewed and twenty-three could not be contacted after repeated attempts. Thus, I don't have a report from GAO today. I have received a letter from them dated November 23, and I would ask that it be entered and made a matter of record now. It provides some of the details that I presented here.

[The following information was received by the committee:]

U.S. GENERAL ACCOUNTING OFFICE,
Washington, DC, November 23, 1983.

Hon. ROGER W. JEPSEN,
U.S. Senate.

DEAR SENATOR JEPSEN: In response to your September 15, 1983, letter and subsequent discussions with your office, we initiated a review of certain aspects of the Federal Crop Insurance Corporation (FCIC). Specifically, you wanted to know why farmers in Iowa are not buying crop insurance and whether FCIC paperwork requirements are too cumbersome for effective program sales. On November 3, 1983, we were requested by your office to provide the results of our review at hearings to be held in Des Moines, Iowa, on September 2, 1983.

In order for us to meet the timeframe established by your request, we had to select a random sample of farmers in Iowa to interview. FCIC does not have a list of all the producers in Iowa but uses the Department of Agriculture's Agricultural Stabilization and Conservation Service's (ASCS's) producer name and address file for its marketing activities. According to ASCS officials this file contains the names and addresses of producers who have participated in an ASCS program within the past 18 months.

We selected a random sample of 225 Iowa producers to interview from the ASCS listing. However, when we attempted to contact the persons in our sample, we found that the list contained several persons no longer involved in farming, were deceased, or who could not be contacted by telephone. Of the 225 producers on the list, we could not obtain telephone numbers for 53, 30 were not farmers, 3 were deceased, 10 refused to be interviewed, and 23 could not be contacted after repeated attempts. We were only able to contact 106 individuals, which means that we have no information on more than half the individuals in our sample. As a result, we were unable to contact a sufficient number of farmers in order to provide a meaningful indication of why farmers do not buy crop insurance in time for the December 1983 hearings.

Our staff, however, after much research and discussion with FCIC, ASCS, and Statistical Reporting Service (SRS) officials, identified a more reliable data base which will enable us to respond to your request. SRS, working with our staff, has drawn a new sample which consists of a list of individuals who certified in June 1983 that they were active producers in Iowa. Initial results of the contacts made from the new SRS list indicates a much higher response rate and we fully expect to be able to provide you with meaningful results in early February 1984, which your office has told us is acceptable for providing you with our findings.

Sincerely yours,

B. E. BIRKLE
(For J. Dexter Peach, Director).

ANALYSIS OF EFFORTS TO CONTACT IOWA FARMERS

The following shows the results of Iowa farmers (producers) contacted:

Original sample	225
Less telephone numbers not identified	53
Remaining sample	172
No longer farming	30
Refused interview	10
Deceased	3
Could not contact after repeated attempts	23
Interviews completed	106
Total	172

THOSE THAT HAVE CROP INSURANCE

Analysis of the responses of the 106 persons interviewed disclosed that only 14, or about 13 percent, had Multiple Peril or All Risk Crop Insurance coverage during the 1983 crop year. The reasons stated by the 14 persons for purchasing the insurance is shown below:

Reason

1. 8—Provides financial security/protection.
2. 3—Weather conditions.
3. 1—Fair price.
4. 1—Good coverage.
5. 1—Too late to cancel.

THOSE WITHOUT CROP INSURANCE

Analysis of the reasons given by the 92 persons (106–14) or about 87 percent, that did not purchase Multiple Peril or All Risk Crop Insurance coverage for crop year 1983 is shown below:

Reason

1. 3—PIK Program.
2. 17—Too expensive.
3. 12—Bad investment.
4. 11—Plan to cover losses myself.
5. 11—Poor coverage.
6. 19—Have never had substantial loss.
7. 1—Poor servicing.
8. 3—Didn't know much about it.
9. 1—Government program.
10. 14—Other.

Other reasons:	*Number*
Never carried it before	1
Poor claim settlement	1
Not interested	4
Never purchased it	2
Don't need it	2
Don't believe in insurance	1
Never considered it/about to retire	1
Never had it and never will	1
Not enough acreage	1

THOSE HAVING PRIVATE HAIL INSURANCE

Of the 92 persons who did not carry the Multiple Peril or All Risk insurance 48 of the 92 stated that they carried private hail insurance.

NOTICE OF FCIC INSURANCE

The following shows the responses of the 106 persons regarding whether they had been contacted about the Mutiple Peril or All Risk Crop Insurance and the method of contact:

	Had Multiple Peril or All Risk Insurance	
	Yes	No
Persons making contact:		
Insurance agent	4	13
ASCS agent	....	3
FCIC agent	....	1
Other	....	9
Not contacted by any sales agent	10	66
Total	14	92

SUGGESTED CHANGES TO FCIC PROGRAM

The following shows the changes that the 106 persons believe should be made to the Federal Crop Insurance Program to increase participation:

1. 45—Nothing I can think of.
2. 2—Nothing they would do could help.

36-721 O - 84 - 2

3. 18—Lower cost.
4. 2—Improve service.
5. 14—Educate/inform farmers better.
6. 43—These persons provided the following other suggested changes. Generally these were: Increase coverage; increase yield; and better claims settlement.

Senator JEPSEN. What is extremely disturbing is that an up-to-date list was available from other agencies, agencies which the Federal crop insurance people in Washington never bothered to contact.

GAO officials now have an updated list and will provide me with the results of the new survey in early February. This current list was obtained from the Statistical Reporting Service of USDA. Perhaps the Federal Crop Insurance Commission Chief, Merritt Sprague, one of our witnesses, will be able to clarify why the agency hasn't been using the SRS list.

The witnesses today represent a cross section of Iowans who have an interest in the program, including the insurance industry, agribusiness, and most importantly, the farmers who should be benefiting from the program, but in many cases are not.

Our lead witness is the very distinguished Third District Congressman Copper Evans, who has been active in monitoring the program. After his testimony, I would respectfully invite the Congressman to sit with me during the hearing.

Congressman Evans, you have the floor, and in the parlance of the Senate of the United States, I now yield the balance of my time to you for whatever you want to do with it.

STATEMENT OF HON. COOPER EVANS, A REPRESENTATIVE IN CONGRESS FROM THE THIRD DISTRICT OF IOWA

Mr. EVANS. Thank you, Mr. Chairman. I am indeed pleased to have an opportunity to testify before your subcommittee today. I want to compliment the Senator on holding these hearings, because I think there truly is a great need and I want to make it clear that I am here today not only as a Member of the House and its ag committee, which has a vital interest in this program, but I'm also here as a farmer who has continuously used Federal crop insurance in my own farming operation for, I believe, the last 12 or 13 years.

I also want to make it clear that my experience with the program, my experience as a farmer has been excellent. I personally have absolutely no complaints. It has served me well. I say that in spite of the fact that in that 12 or 13 years of experience I have only had one claim paid to me and I have paid into the program something like three times more than I have gotten out of it, but when I needed it, it was there and it was an extremely valuable help at a time when I would have had serious problems without it.

I also want to make it clear that as a Member of Congress I am a strong supporter of the Federal Crop Insurance System. I believe that Federal Crop should be the primary vehicle for delivering disaster relief.

I am not here today to merely praise but also to offer constructive criticims. I think there are many valid criticisms of the program that can and should be made. The criticism that I will voice is based on many discussions with farmers who have participated in the program,

or who have decided not to participate, and with many insurance agents who have offered the program in my district.

The purpose of my criticism is to bring to the committee and to Federal Crop Insurance Corporation several suggestions that have evolved from these discussions because the program needs to be improved. It is not yet performing and delivering services as it must in the years ahead if it is going to perform the mission envisioned by the U.S. Congress. With the approval of the chairman I will submit written testimony, but I propose today to talk informally from handwritten notes.[1]

The first concern that I have is one that the chairman mentioned in his opening remarks, and that has to do with the level of participation. As I understand it, it is about 12 percent nationally. I understand it was about 16 percent before enactment of the act of 1980.

In Iowa it is my understanding that we lack, we fall far below the national level of participation, and I'm under the impression that in Iowa in the 1983 crop year the coverage on corn acreage was about 4 percent and the coverage on soybeans was about 6 percent.

I note with great interest this is in tremendous contrast with one county in Iowa, at least, Dallas County, where even in 1982 the participation was 13 percent, but the remarkable thing is that in 1981 participation in Dallas County was 70 percent, I believe, at a time when the crop insurance was offered through the county ASCS office in that county.

I want to make it clear that I believe that Federal crop must continue to be available through the private sector agents and companies, but after 3 years' experience, their efforts are, in my judgment, a total failure with respect to increasing participation.

If we have a national policy goal of high participation, in my judgment Federal crop insurance must also be available through the 1,200 ASCS offices in this country. I do not see any alternative if we are to get wide participation. We need all the delivery sources we can find, and this is a great resource that has not been used the past 3 years. We either have to change the delivery policy or our participation goals. It is as simple as that.

The second concern I have is also one that was mentioned by the chairman, and that is the cost of delivery. I'm pleased to note that your committee is closely examining and reviewing the cost associated with delivery of Federal crop, and I share your concern in that I have been having problems getting appropriate numbers to properly analyze this, but I have reason to believe that they are extremely high.

I suspect that under the present system of delivery and paying for administration we could not possibly begin to afford universal participation by the agricultural communities in this country. I personally believe, based on experience in this State and pilot programs of delivery through ASCS, that those costs could be dramatically reduced if the program was delivered in part through the ASCS system. I think this is well borne out by experience in Dallas County here in Iowa. Costs then are another strong argument for utilizing at least the ASCS as part of the delivery system.

---

[1] See p. 87 for the prepared statement of Mr. Evans.

A third concern has to do with pilot programs for evaluating delivery systems. The 1980 act, I think, very specifically sets out that Federal Crop and the U.S. Department of Agriculture was to conduct for 4 years a series of pilot programs in selected counties to evaluate methods of delivery. There were 40 such counties in 1979, but this pilot program was stopped in 1981. I think it would have been extremely valuable at this point to have had several years' experience with delivery of Federal crop insurance through selected ASCS offices and that would give us an excellent basis for cost comparison. I would suggest to the chairman that another look at these pilot programs, another try at least on a trial basis delivering Federal crop through county ASCS offices would certainly be in order.

To move on to a number of more specific complaints and suggestions that have come to my attention from discussions with agents and producers, I have several.

The first of these has to do with the unwarranted loss by producers of good experience benefits and elimination of bad experience benefits. For the enlightenent of anyone who does not understand exactly what I'm talking about, the longer you participate in the program, if you have a good record of not claiming excessive losses and a good production record on your farm, your premiums are substantially reduced.

I have been in the program, I think, for 12 or 13 years. I am paying at the present time roughly half the premiums I would pay if I were a new producer entering into the system, so this experience is extremely valuable to me.

If I have a bad production record, the premiums are increased over those required for initial access to the program. That is important to the solvency of the program, but the point is, if you change agents or if an agent changes you from one basis to another basis, you may lose the benefit of that lower premium, or you may have your premium reduced and the bad experience that the Crop Insurance Program has had with your production is eliminated from your record.

There are several incentives under the Federal Crop for this. The commissions are higher for new insurance. There, therefore, is incentive for one agent to steal customers from a different agent, or to change the status of that customer in order to get a higher commission.

There is another incentive. It is easier to sell to a person if you can tell him, "Well, if I rewrite your policy and put you on a different status, we can eliminate the bad experience and therefore reduce your premium."

There is some evidence this has been occurring at least in some instances in the program in the last several years. I think this should be looked into. Abuses should be sought out, and appropriate punishment should be meted out where abuses are found and restitution should be made in those cases where people have unjustly lost their good experience benefits.

Another matter frequently is slow process of claims and payment of adjustment. In some instances, at least, there have been 90-day delays through the National Service Office in Kansas City, and part of this delay, I think, on claims can be charged to the need for reviews at multiple levels, including the field supervisors in the Des Moines office.

I notice that the private insurance companies have been doing a much better job on paying claims, and I think we need to very closely review the process involved here.

Another similar complaint has to do with the slow processing of acreage reports. These are the forms that are filed when you have planted, and you submit a certified statement to the Federal Crop people that you have planted appropriate crops in the appropriate time and in certified amounts. Some of those acreage reports that were submitted by June 30, 1983 have not yet been acted on by the National Service Office in Kansas City. There has been a 5-month period where some producers have planted, have harvested their crops and still do not know for sure whether they had coverage during this crop year or what their premium will be, or for certain whether they received a claim if they had had a loss. We need to look very closely at that processing procedure and take steps to speed that up.

A similar problem is with the slow paying of commissions to agents. Commissions are due when the premiums are paid. There are no commissions yet to some of these agents on premiums that were paid in early September. Remember, Mr. Chairman, that these policies were written last spring or last winter. It is almost a year later and the agents involved in some cases have received no commissions.

I think the committee ought to look at reinstating the system that was in effect for a while of giving the agents 5 percent of the premium, of the commission when they write the insurance to pay their out-of-pocket costs, and then making sure that the balance of those commissions are paid promptly when the premiums are paid in full.

Another somewhat more complex problem has to do with policies of Federal crop insurance on the division of production units. Many producers divide their units, their entire acreage into a number of production units. I have mine divided into five units right now because I have five different crop share tenants working with me on that ground. There have been some cases where units that have been established for a number of years, the owners and operators of those units are now discovering that they do not meet the guidelines.

For example, in my district I have a producer that had been using the same units since 1976. They had been accepted each year since that time by Federal Crop, but in 1983 when he had a loss and he filed a claim he was told that those units were improper and that he had no coverage, yet there was no evidence over those many years when those units had remained the same that there was any difficulty with those units.

This division of farmland and the doubts that are associated with those policies, in my judgment, are totally unacceptable. It is a totally unacceptable situation when the insured doesn't know for sure whether or not he is really insured and has appropriate units until he files a claim and expects payment.

The last point I would mention is the very complicated actuarial program. It is complicated and it is difficult to work with. To illustrate what I mean, in one county in my district there are nine map areas that are used as a basis for setting the insurance rates. That is not unusual, but the difficulty arises that there are 170 written amendments to those nine sets of maps, and it is virtually impossible for an

agent and a farmer to be certain that they are properly pricing the insurance when the system is that complicated. Certainly there ought to be a simpler way. Maybe it has to do with tying it in with the established ASCS yields.

Finally, I would like to submit to the chairman for inclusion in the record testimony that I gave to a committee in Washington not long ago on a point on something I think should be added to the Federal crop insurance, and that is a separate system and policy relating to protecting producers from losses in elevator bankruptcies. It has been examined in considerable detail. It would be cheap to the producers and it merits consideration.[1]

I would say I appreciate the opportunity to testify before this subcommittee today. I can't stay for an extended period of time, but I will be pleased to join you for a bit, if I may.

Senator JEPSEN. Please do, and I thank you very much, Congressman Evans. Your testimony was just yet another example of your very distinguished reputation of being a man who not only thinks like a man of action, but acts like a man of thought, and has his information and facts well in hand. In fact, I feel very reinforced by you sitting up here. I want you to feel free to respond.

Second panel, Merritt Sprague, Manager of the Federal Crop Insurance Corporation, and Elizabeth Hallberg of County Operations ASCS.

Merritt, I thank you very much for coming to Iowa. You know, former President Truman said, "If you can't stand the heat, you have to get out of the kitchen," and I suspect you feel a little bit like being in the kitchen today. I respect you and thank you for coming out here and meeting this thing four square and getting to the bottom of it.

Critics can kill a play, but very few critics ever write one. We hope collectively today to come up with some answers, or at least recommendations, that will resolve one way or another some of the problems that we have had running rampant.

Elizabeth, thank you for coming. At this point in time, if I may, I guess they call you Betty?

We will start with Merritt Sprague, Manager of the Federal Crop Insurance Program. Welcome to Iowa. I would again remind you that any written remarks you have will be entered into the record as if read. If you do have any written testimony, and if you have an extra copy, I would appreciate it if you would drop one over to the press desk over here on my left, or give it to Mr. Jim Lafferty standing up in the back, so he can share it with the press.

Merritt Sprague, welcome. You may proceed.

STATEMENT OF MERRITT W. SPRAGUE, MANAGER, FEDERAL CROP INSURANCE CORPORATION

Mr. SPRAGUE. Thank you, Senator. It really is a privilege to be here today and represent the Department of Agriculture and the Federal Crop Insurance Corporation. I applaud the efforts of you, Senator, and also Congressman Evans too, and support this approach to a meeting which discusses the needs of farmers not only in Iowa but across this Nation.

---

[1] See p. 89 for the material referred to by Congressman Evans.

Senator JEPSEN. If I may, I want to doublecheck. Can you hear in the back? All right.

Mr. SPRAGUE. Mr. Chairman, I agree with the calling of this meeting. I feel there is something wrong with the Crop Insurance Program, but I feel somewhat different than some of the other witnesses perhaps who may testify. I believe the major problem is simply not enough Iowa farmers and U.S. farmers were protected in 1983, when one looks at the weather problems experienced by the producers.

I take no pleasure or exultation in reminding producers if they had crop insurance their economic picture would be far different than what it is in the absence of insurance.

Despite the best trained and most professional delivery service, and despite the best efforts of the agency and improved administration, the vast majority of Iowa farmers did make a conscious decision not to have crop insurance in 1983, and not to use the protection available.

Some say lower rates and raise coverages. Let's be serious. This program is intended by Congress to be actuarially sound and to operate on a business-like basis. We expect to pay out $2 for every $1 of premium income in 1983 nationwide, and about the same ratio for Iowa. Our cumulative long-term loss ratio of 30 years is over $1.15. We paid out at least $1.15 for every $1 in premiums collected in the United States.

The Crop Insurance Program is not intended to be a welfare program, and I, as its Manager, chief executive officer, am not expected to be Santa Claus. We must plan on taking in as much in premium income as we pay out over an extended period of time. Steps have been taken to improve the equitability of both rates and coverages.

I'm just as concerned about rate equality as I am about rate sufficiency. The individual yield coverage program recently initiated by the Corporation will reach producers whose performance exceed the average of their area with fair and equitable coverages and premium rates.

Mr. Chairman, I do have a statement which I intend to enter for the record. I would like to highlight, however, some of the comments in that statement.[1]

There are several reasons in my opinion which have contributed to the situation which we face today: Participation rates failing to meet the expectations of yourself and your other colleagues in Congress.

To begin, I think, perhaps, that the expectations were too high. I think it was unreasonable to expect that Federal Crop could grow from a corporation with a $100 million of insurance in force to one with $1 billion worth of insurance in force, premium income, in a very short period of time. Any private company in any line of business would have had difficulty achieving such expectations.

We have made substantial gains when it comes to making insurance offers to producers across this country. We have grown in terms of county crop programs from something over 4,500 in 1980 to in excess of 18,000 in 1984. We are insuring some 34 crops across this country, ranging from almonds and citrus to the more commonly grown corn and soybeans in Iowa.

In 1983 there were some one-time negative effects on crop insurance participation as measured by premium income. The payment-in-kind

[1] See p. 98 for the prepared statement of Mr. Sprague.

program changed the universe in which to sell by 29 percent. Potential insurable acres dropped from 280 million to 200 million. In 1982 price elections declined.

The state of the agricultural economy in the last 2 years has made it difficult to sell an optional program, optional expenditure to those that are depressed.

The most significant factor in my opinion is that producers have not yet regarded crop insurance protection as a generally accepted business practice. They insure their businesses, their lives, and barn and machinery. They buy life, health, death, and accident policies like everybody else, but they fail to insure the single greatest risk they incur, the risks related to crop production.

Why is this so? Well, obviously, there are some people who are financially capable to assume the risks that are involved. Obviously, there are some people to whom hail is the greatest risk, and private crop hail insurance meets their greatest needs. Generally lenders have not required crop insurance for farm operating loans. Of course, there are a few who simply do not believe in insurance or participation in Government programs.

Taken together this probably reduces the potential participation in a multiple peril crop insurance program to about 50 percent of all the acres planted in the United States; thus, 50 percent participation in all eligible acreage really represents about 100 percent of the total potential market for multiple peril crop insurance.

The staff of Federal Crop and its management, as well as your committee and others, have been searching for the answer to the question, "What will it take to reach those who are currently uninsured?"

Many uninsured say Federal crop insurance is a low value, high price package for their operation. Many continue to believe that it is for the poorest farmer on the poorest land. Many are unaware of the new changes in the program. Many regret that no agent has sought their business and explained the program to them. Most fail to recall our advertising efforts. Some were once policyholders and dissatisfied, but their opinion is often based on an experience that is several years old and the program is not like the program of 1979 or 1980, or even 6 months ago.

The overwhelming reason for the failure of producers to participate in this program is that they have come to believe they were disaster proof; 1983 proved otherwise in a tragic fashion to many. Furthermore, many believe and have experienced a bailout from Congress when the unlikely disaster has come, and they believe that will happen again.

Producers sometimes misperceive their previous experience. They base their expectations on their potential rather than their actual experience.

Together I think we can do something about each of these reasons. The Members of Congress of the United States can help Secretary Block and myself by voicing strong support for the crop insurance program as the primary protection for producers against the adverse economic effects of production problems.

The Members of Congress in my opinion, need to firmly reject ill-conceived alternatives to the current program.

Producers need to know that the disaster programs of the past really are a thing of the past.

Our private sector partners in the delivery system need to know, beyond any shadow of doubt, that large capital investments made by them in capacity to service crop insurance needs will not be made unproductive by a fickle Congress. This program needs stability, Senator, and the wholehearted support of people like yourself, the administration, and the participating private sector to suceed.

We have taken steps to make a number of improvements to contracts. Perhaps the greatest task facing us the last 3 years is to design a product, a crop insurance product, if you will, that truly meets the needs of the producers. We have revised contracts to a substantial degree to make them applicable to the real world in which we must sell such contracts.

The single most significant change, however, has been a move toward yield guarantees being based on actual production history rather than upon the average of a group of producers in an area. The individual yield coverage program, IYC, as we call it, is now an option to almost every contract offered by the Corporation. We are moving to make that the sole basis of yield guarantees for many crops as soon as practical in the future.

That kind of approach, which is a significant change from our traditional way of doing business, promises to reach a huge number of producers who needed risk protection for years but who have rejected crop insurance as a poor-value, high-price package for their operation. For the first time it will allow the better-than-average producer to have yield guarantees which really reflect his capability to produce. For the first time this system will allow us to develop the kind of rates which accurately reflect the yield.

Senator JEPSEN. You say for the first time. When is that?

Mr. SPRAGUE. With the IYC, the actual guarantees being based on actual history.

Senator JEPSEN. Is it in practice?

Mr. SPRAGUE. It is. We are moving to make it the sole basis.

Senator JEPSEN. Was it an option last year?

Mr. SPRAGUE. It was, and was used to a very limited extent across this country. Probably the biggest challenge facing the Corporation today is gaining widespread understanding of the new changes and winning the support of third parties who influence the decisions of farmers. The assistance of sister agencies like the ASCS, the Farmers Home Administration and the extension service is vital. The acceptance of crop insurance as an important part of an operating plan by the agricultural lenders in this country can be a key factor in achieving greater participation. Farm managers can contribute in a positive fashion.

We are working with each of these groups to promote understanding, to inform them of the changes in the program, to bring them up to date. Many are not aware of the changes that have taken place.

The private insurance agents delivering this program probably will have a greater impact upon sales than any of the efforts of any other group. It will take aggressive sales efforts, in my opinion, to achieve the goals of Congress and this can only come from belly-to-belly and eyeball-to-eyeball contact with the potential insured.

My agency and each of its employees are committed to providing the best service humanly possible, and Congressman Evans, that service is improving.

36-721 O - 84 - 3

The report I had this week on claims paid in our Kansas City office show that we have paid 65 percent of the claims so far this fall within 30 days. That is a significant improvement from the performance of 1982. In fact, it halved the time that was involved. I expect further improvements in timeliness as we fully implement the new systems that have been brought on line to handle paper and payments to producers and agents.

I believe we have shown much progress on many different fronts and that progress will be reflected in large gains and sales and participation next year. I'm optimistic about 1984 because I believe it is all coming together at the same time. We have a vastly improved product, a far more effective professional delivery system, and an agency better equipped to handle its responsibilities.

Senator, you and your colleagues in the U.S. Senate and the House of Representatives share in some degree the responsibility for the negative perceptions of the Crop Insurance Program. We have been involved in an almost continuous call for investigations and hearings. While I welcome these kinds of things, they create an attitude of distrust to some degree by some of the very people who should have the most confidence possible in the Crop Insurance Program.

I know that you and Congressman Evans and almost all Members of the U.S. Congress intend to be helpful, and we appreciate that assistance. We need to avoid, however, actions which tend to create instability, actions which are disruptive and disturbing and those with whom we are trying to build the credibility we need to achieve success for this program.

Thank you, Mr. Chairman.

Senator JEPSEN. Betty, Merritt said you were one of his sister operations. Betty Hallberg, county operations, ASCS, you may proceed.

STATEMENT OF ELIZABETH HALLBERG, ON BEHALF OF "HUNK" ANDERSON, EXECUTIVE DIRECTOR, AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE OF IOWA

Ms. HALLBERG. Mr. Chairman Jepsen, my name is Betty Hallberg, and I have been the Pocahontas County ASCS specialist for 27 years. I am presently in the State office in Des Moines, and I am giving this report for Mr. "Hunk" Anderson, executive director of ASCS of Iowa.

Mr. Anderson had word from Washington to have his district directors in Des Moines this morning at 9:00 to brief them on the new Emergency Feed Grain Program. He is very sorry he could not attend to give his report.

Federal crop insurance is a tool for farmers' benefit. It has been available, and with participation the past year, including the PIK program, we would not have had the ramifications of disastrous circumstances we now have.

To whomever administers the FCIC program, to have the availability of more tools, my advice would be to use the ASCS 156 cards because they contain the complete history of the farm. Then use 578's, the certification and slide system, to verify and complete acreage reports for an accurate assessment and collection of premiums on actual acres.

We have cooperated 100 percent in our role as stipulated by FCIC to give the insurance industry in the past years a complete free rein to market in their own way.

I would like to relate to you our role in FCIC as our pilot counties in 1978, 1979, 1980, 1981, and these are the facts and figures:

Davis County, all land uninsurable previous to 1978. In 1978, 120 contracts, $42,000 premium dollars, 10 percent participation; 1979, 130 contracts, $45,000, 11 percent; 1980, 135 contracts, $48,000 in premiums, 11 percent; 1981; 140 contracts, $50,000, 12 percent; and 1983, 4 percent.

Dallas County transferred from Federal Crop in 1979, 80 contracts. In 1987, 240 contracts, $160,000 in premium dollars, 14 percent; 1979, 450 contracts, $390,000, 25 percent; 1980, 1,105 contracts, $1 million, 60 percent; 1981, 1,210, $1,005,000, 70 percent plus; and 1983, 5 percent.

Pocahontas transferred 120 contracts from Federal Crop in 1977; 1978, 380 contracts, $258,000, 19 percent; 1979, 394 contracts, $265,000, 20 percent; 1980, 380 contracts, $255,000, 19 percent; 1981, 450 contracts, $370,000 and 23 percent; 1983, 9 percent.

Our role in crop insurance shows percentages of farms in the 4 years we serviced it. Finally, the year 1983 was totally involved by private industry.

I want to point out our success in this. Obviously, we are very interested in promoting participation at a high degree for the good of agriculture. I would sincerely hope we can resolve this problem for a sound agriculture. We must have our farmers secure by crop insurance. The farmer must pay for his own disaster and keep the Government free of a costly disaster program. We also must have credible delivery and an administered program to the farmer's acceptance.

I'm willing to help achieve these goals in whatever way the Secretary deems feasible.

Again, I pray we can resolve this program and solidify our relationship with the farmer, keep him from flirting with disaster, all for a prosperous agriculture.

I wish to thank you for allowing me to represent Mr. Anderson in this testimony.

Senator JEPSEN. Thank you. Mr. Sprague, why hasn't the Federal Crop Insurance Corporation established a reliable list of producers for use in its marketing activities?

Mr. SPRAGUE. Senator, I was unaware you had sought a list. I'm not sure which office gave you the list. I will see if I can ascertain what list you received and from where it came.

I will, however, make some remarks in regard to lists of producers that we use. Generally speaking, we use lists of producers supplied by ASCS. We do not have our own mailing list at this point. We are in the process of developing one. With the marketing effort, the primary marketing efforts of the Corporation in the hands of the private sector, it is they who have the greatest need for such lists of potential insureds. But with local agents servicing producers within their local communities, they have access to the kinds of lists that are necessary to develop leads and to make additional sales.

I am at a loss to explain why the list you received contained so many errors, and without further knowledge than I have today I really cannot respond to your question.

Senator JEPSEN. I might add, I didn't ask for the list. The General Accounting Office asked for the list. When they responded to tell me that they could not have this report which I had requested for this meeting, they indicated that, I quote, In order for us to meet the time-frame established by your request, we had to select a random sample of farmers in Iowa to interview. FCIC does not have a list of all the producers in Iowa but uses the Department of Agriculture's Agricultural Stabilization and Conservation Service's producer name and address file for its activities, end quote.

Is that correct?

Mr. SPRAGUE. Yes, we do.

Senator JEPSEN. This continues, and reading, "According to ASCS officials this file contains the names and addresses of producers who have participated in an ASCS program within the last 18 months," end quote.

Is that correct, Betty?

Ms. HALLBERG. Yes.

Senator JEPSEN. "We selected a random sample of the 225 Iowa producers to interview from the ASCS listing," and that is where they got these results of no telephone numbers for 53, 30 were not farmers, 3 were dead, 10 refused to be interviewed, and 23 could not be contacted. This is their letter to me. I'm sure we share the concern.

Mr. SPRAGUE. Senator, we, in Federal Crop share your concern with that list. We use that list to mail advertisements, to mail direct mailers to people who were on that list. We culled about 50 percent of the names off the list, tried to eliminate the duplicates. There are still far more names on the list than appears to be appropriate. We are not going to use that kind of a list to mail advertising information in the future because of the lack of reliability of it.

Mr. EVANS. Mr. Chairman, I do have a couple of questions.

Mr. Sprague, I do get numerous complaints about the slowness of delivery and slow response from the Kansas City office, and I am sympathetic, believe me, to your problems. I just ask you, do you think you have an adequate staff in terms of the number of people in Kansas City at the present time?

Mr. SPRAGUE. I do, but at the same time I recognize that we have lacked the managerial capability at some middle management level in Kansas City to achieve the kind of performance that is appropriate.

Changes have been made in regard to filling some very critical vacancies. I have seen substantial improvement in that office. For your information, and the information of those here today, all claims have been paid to date as of last Friday. All loss adjustments, contracts or reimbursements or commissions or payments have been paid. There are a few occasions where agent commissions are still pending, but they are pending because there is some controversy over them.

We are running an agent commission list approximately every 2 weeks. Agents under our current system are paid when we collect from the producer the premium which they have been billed and is due. We have no advance payment system like existed in 1981. That was a conscious decision made by my board of directors and a decision which they felt was appropriate.

Mr. EVANS. What about the matter of equipment? We are in a computer age and I'm sure you are moving toward more data process-

ing in your system. Do you feel that you have been able to fund and obtain appropriate equipment, given the size of the program that we hope to put in place here in the next few years?

Mr. SPRAGUE. Yes, I feel we have had sufficient support. I'm not satisfied, however, with the reliability of main frame computer which we use at Kansas City. It has been down a rather substantial number of hours in the last 60 days. This has had an adverse effect on our ability to process records, and caused us to lose some records which had to be reconstructed. However, I think the hardware is being improved to meet our needs.

I know we have gained some expertise in the acquisition of a new data processing manager. We lacked the brains to use what we had in some cases, and I have moved to make the most effective use of the capability which we have.

Mr. EVANS. I'm very encouraged.

Elizabeth Hallberg, you have outlined in some detail the success of the pilot programs that we had in Iowa for several years using the county ASCS offices and the substantial dropoff in participation when those programs were terminated and the delivery was through individual agents. You did not mention, however, anything about the cost of those delivery services. What I'm wondering is, if the records indicate any data on the cost of delivery through the county ASCS offices. Is there a substantial amount of data detailing so that one can make a decision as to whether those costs were suitably calculated? What do you have in that regard?

Ms. HALLBERG. I can't answer that I'm sorry.

Mr. EVANS. Could you find out for us whether there is cost data available?

Would that be appropriate, Senator?

Senator JEPSEN. It certainly would.

Mr. EVANS. Then turning back to Mr. Sprague, if I may, Mr. Chairman, for one more question.

Do you have any doubt on the relative costs of delivery using the two systems that we have been discussing here this morning?

Mr. SPRAGUE. I'm not certain just what two systems you are discussing. I'm to assume that ASCS delivery is one of them?

Mr. EVANS. Then the cost of the various options that are being used are under the present Federal crop-insurance delivery system.

Mr. SPRAGUE. Under the present program I feel our administrative and operating costs are pretty much in line. They are relatively consistent with other lines of insurance handled by the private sector. I do not believe there is any substantial operating and administrative funds to be saved by using a Government delivery system. I feel that private sector agents who are paid on a commission basis, who are paid only when they perform, will over the long run, provide a more cost-effective delivery system than Federal employees.

I do have some problem with the numbers used for participation in 1983. Our own numbrs are not, I regret, as good as they should be, but the numbers we have heard here today do not include nearly 50 percent of the business handled by reinsured companies in 1983.

Nationwide participation levels are approximately the same as they were in 1982. It is true that the trends in Iowa are not as encouraging as they are in some other States when it comes to participation.

We have seen some substantial decline since the high point of about 1981. This bothers me and concerns me, but it also bears a direct relationship to the crop production prospects in Iowa the last 2 years. 1981, if you recall, followed 1980, which was a severe drought year. Participation substantially increased because of concerns for 1981 crop prospects. We found it dimcult and have been unable to hold the kind of participation levels we achieved in Iowa, but in other areas of the United States participation in that same period has expanded as much as tenfold and fourteenfold.

Mr. EVANS. Thank you. I will just say to you, Mr. Sprague, that I appreciate your coming here today and I want to continue to work with you to improve the system.

I thank you, Mr. Chairman, for giving me the opportunity.

Senator JEPSEN. Thank you, and I invite and encourage you, because of your total knowledge of this, to continue to contribute.

Mr. EVANS. Unfortunately, I have other schedules I have to meet, Senator, and I'm very, very sorry, but they were commitments that were made before I knew we were going to do this today. I have to go, but I greatly appreciate the opportunity to participate up to this point, and again commend you for holding these hearings.

Senator JEPSEN. For better producers, what is being done to assure that the premiums being charged these producers are adequate and based on the producer's actual risk?

Mr. SPRAGUE. In the case of the optional individual yield program which is available in Iowa for corn and soybeans and most other crops, the farmer pays the same cost per acre as he would have paid for our area coverage plan. This means, in effect, the producer who earns a higher yield guarantee because he can prove actual production history exceeding his area averages, has a lower percentage premium rate, but same cost per acre for additional coverage.

Our actuarial studies, confirmed by an outside consultant, Millaman and Robertson, in the last few weeks confirm that experience with higher level producers is generally better than that with lower level producers. In other words, we are not incurring additional risks on a per acre basis when we offer higher yield guarantees to those that deserve them.

Senator JEPSEN. What role does the FCIC envision ASCS playing in the individual yield-coverage programs?

Mr. SPRAGUE. ASCS has a very critical and important role in making IYC determinations. It has a critical and important role in accumulating, recording, and retaining actual production history data by farms. It has a very critical role in support of the Federal Crop Insurance Corporation in that it is a local service office where actuarial filings are made. It is a source of information for producers. They maintain lists of agents who are authorized to sell crop insurance.

That agency does many things very well. I have been part of ASCS much of my own life. serving as chairman of the Illinois State ASCS Committee 4 years. I have been a deputy administrator of that agency.

While it does many things well. it does not have a significant level of insurance expertise. I don't believe it is equipped to take over this program. The support role, however, that is assigned to ASCS today is very significant and will involve a heavy workload. It is critical to the future success for the Crop Insurance Program.

Senator JEPSEN. Are you negotiating with ASCS to more easily obtain individual farm records which will be needed if you are going to have individual yield programs?

Mr. SPRAGUE. Mr. Chairman, we have initiated a series of training meetings which will involve every county CED and every program assistant making IYC determinations for Federal Corp. This program has been initiated starting in the South where we have a huge need to make cotton and rice determinations a little earlier in the year, but will be conducted across the United States. It is an effort which I think will bring us together in terms of cooperation.

I have seen a greatly increased positive attitude by ASCS and its leadership in recent months as they have moved to help us accomplish our goals and objectives with this program. We have their wholehearted and complete support in most areas of the country, and I appreciate that. We need it if we are to succeed.

Senator JEPSEN. You mentioned something about eyeball to eyeball and belly to belly. I assume that is an expression from the sales world that says you have to get right down and get the name on the dotted line?

Mr. SPRAGUE. That's true. There is a limited amount of walkin business that we can expect. I think we have most of the walkin business today, and it will take aggressive sales efforts.

Senator JEPSEN. What have you done to increase this from its rather low levels, in fact, rock bottom levels?

Mr. SPRAGUE. We have developed a vastly improved product. We have trained the delivery system and the agents. In many cases we have helped train those that represent reinsured companies. We have substantially improved the administration of this program and timeliness of delivery to producers who had Federal crop insurance contracts.

Each of these things will help, but the bottom line is that the burden for sales today is placed on the private sector insurance agents. They must demonstrate their willingness and capability to sell this program, develop the kind of participation levels that are necessary if it is going to succeed and, in my opinion, they have a very limited period of time in which to demonstrate this capability.

Senator JEPSEN. What happens if they don't?

Mr. SPRAGUE. If they do not, it is a new ballgame and we will look for alternatives.

Senator JEPSEN. Is there a difference in the commission that you pay? Is there any incentive for private agents to sell your product as compared to another product they may have?

Mr. SPRAGUE. The commission rates that have been established are paid by Federal Crop Insurance to either the managing general agency, in the case of what we call master marketers, our agency sales and service agreement contractors, or paid to companies which we reinsure as an expense allowance reimbursement type situation. Each of those companies, each of those agencies has its own contract with its agents. Generally speaking those agents are compensated at a rate of 10 percent of premium income for old business or carryover business, and at a rate of 15 percent for new business; a substantial incentive to develop new business.

I believe those rates are consistent with the practices in the industry for other lines of insurance. I believe they are appropriate to the need we have. I believe that they are and should be sufficient incentive to gain the kind of efforts that we need.

Senator JEPSEN. I won't continue with some of the more detailed mechanics here.

Mr. SPRAGUE. Certainly.

Senator JEPSEN. For example, what has the FCIC established or done to establish the system in which sales can be monitored on at least a weekly basis during the selling season? Do you have something like that?

Mr. SPRAGUE. We do have reports coming from the agencies and the companies with whom we are associated. The difficulty is that crop insurance sales cannot truly be measured until an acreage report is received from a producer. We can count applications and how many producers have valid applications on file, but we cannot tell how many acres that producer planted until the acreage report is filed. We cannot very validly estimate the premium income expectations until the acreage report is filed.

We take two pieces of paper from a producer. First we take an application when he first enrolls. He has to file that application only once if he stays in the program. It is a multicrop application today. He signs one piece of paper.

If he wishes to insure all four or five crops he produces which are insurable, then he incurs an obligation to file an acreage report with us shortly after planting, which by units lists the number of acres of the crop that he is insured for.

We take that acreage report and from the information provided therein prepare the bill. If a loss occurs, the loss is adjusted on the basis of the numbers that are reported on that acreage report unless there is significant reason to change it.

Senator JEPSEN. If, as you stated, the disaster payment programs are a thing of the past, and I think they are, then we need to insure a well-designed crop insurance program. What congressional action is needed now to improve the Federal Crop Insurance Program so that it can be a more effective program?

Mr. SPRAGUE. In my opinion, sir, the best action by Congress would be to leave it alone and give it a chance. I believe that things are coming together. I know we have a vastly improved situation over what existed a year ago.

Senator JEPSEN. Well, OK.

Mr. SPRAGUE. You don't sound very convinced, sir.

Senator JEPSEN. I have been in the sales business for a good part of my life, and I'm reminded of that story that is told about the convention they were having with dog food. They had this big convention and all their people were there. The first opening morning they got up on the front stage, and this person was sort of a cheerleader, and he said, "We have the greatest company in the world." You bet. "We have the finest advertisements." You bet. "We have the finest ingredients." You bet. "We have the best public relations and sales force." You bet, and it went on and on.

Finally he stopped and said, "Why don't we sell more dog food?" Do you know what the answer was? Someone put their hand up in the back and said, "Because the dogs don't like it."

I keep getting that feeling here trying to puzzle over this. We have heard several complaints about paperwork and other things. I thought that Congressman Evans really gave a factual report.

Mr. SPRAGUE. We have moved to address a number of the problems he articulated, and if I may, I would like to contribute a couple of more statements to the record that relate to changes that have been initiated.

The complicated actuarial filing that he referred to is a concern of mine. The mandatory IYC program will greatly simplify that. The area coverage program we have used in the past is responsible for that volume of paper and those maps with the exceptions. We can avoid much of that by moving to actual production history as the basis for yield guarantees, the only basis.

Some of the other things he expressed, including the unwarranted loss of experience benefits. Our operations are 450,000 contracts. It shouldn't happen, but it might have happened in one case. We do try to track this so we don't pay new commissions on old business and business that was transferred from other delivery systems. We make an effort to do that, tracking those problems.

We have moved to announce the establishment of a one-rate commission system in 1984 which will pay all agents or agencies the same commission whether business is old and new. We are going to average out what it has cost us in the last few years and try to avoid the few instances where we do not satisfactorily track business.

We are making changes and making moves to address the problems he and many of the others have articulated. It is not a perfect product, but vastly improved over what existed a short time ago.

Senator JEPSEN. I do thank you. We also have six additional panels.

Betty, do you have anything you want to add or say before we close this panel?

Ms. HALLBERG. Mr. Chairman, I do want to say that ASCS offices do play a big role with Federal Crop. They do get their yield information from ASCS, they get their acres, a lot of their acres, or the producers bring their acres to the ASCS office.

I think that possibly Mr. Sprague mentioned costs. We have the employees in the office anyway. The farmer, the producer has to come to the office to certify his acres and keep his yield data up to date. It wouldn't cost that much more to establish Federal Crop in the county offices.

Senator JEPSEN. Mr. Sprague, are you in favor of that?

Mr. SPRAGUE. I am not, and I am not for a couple of reasons. First of all, I believe it is going to take aggressive sales to get this job done. I don't see very many county ASCS offices and their staffs doing that. It could happen. It has happened. Dallas County was referred to by Congressman Evans a few minutes ago, and in that county a few years ago, nearly every committeeman and every member of the staff went down the road knocking on doors and they achieved high levels doing so.

Senator JEPSEN. 70 percent participation.

Mr. SPRAGUE. I don't believe very many county committees and staffs are going to do that, and that is one reason why I oppose that kind of approach.

36-721 O - 84 - 4

I believe that private sector agents with a commission, with incentive, will take that action. Further, we have a problem of insuring producers of all crops. We are involved in insuring all things, such as grapes, raisins, almonds, citrus, and things with which ASCS have little involvement. We did insure grapes as well, but we do not now.

Senator JEPSEN. You'd better make sure people know that is a crop. Do you have any final remarks?

Mr. SPRAGUE. Only to express my appreciation for this opportunity to testify and to applaud you and Congressman Evans for the help you have been to me and this program through the years. Thank you very much.

Senator JEPSEN. Betty, your last remark has kept this panel open a little bit longer. Do you have any others?

Ms. HALLBERG. I think we should look into it further, and I'm sure the ASCS could play a big role.

Senator JEPSEN. I thank you very much. I would now call panel three, Tom Gamrath, Gamrath Doyle Associates; Robert Fulwider, Fulwider Insurance Agency; David Rutledge, Farmers Mutual Hail Insurance; Don White, Agri General Insurance Service; Rick Gibson, Crop Insurance Marketing; Pete Risbrudt, Communicating for Agriculture, and John Craggs, Master Marketing for Iowa.

I welcome all of you to this hearing. I would remind you again that any written statements you have will be entered into the record as if read. I would also respectfully ask that you identify yourself before you start your statement to assist our reporter.

At this time we will take a 3-minute break while the media company sees if they can fix this microphone.

[Recess taken.]

Senator JEPSEN. I would remind the panel again that the written statements will be entered into the record as if read. I would encourage you to summarize them, be as specific as you can be, in the interest of time. I know there are a lot of folks here who have an interest in this. I have some questions in mind that I would like to ask later for a show of hands to get representation and reflection from everyone here. We will do that before we recess for lunch.

At this time I would like to go from the center and then move right and left and alternate. We will start with David Rutledge who happens to be dead center.

Farmers Mutual Hail Insurance Co., welcome to the panel and you may proceed.

Mr. RUTLEDGE. I'm David Rutledge, president of Farmers Mutual Hail Insurance Co.

Senator JEPSEN. Excuse me. The manager here has a number of messages for people. Do you have those handy at this time that you can give them to me and I could call off the names, because I think if I did as you directed, you would have everyone coming back to see if they had a message. It sounded good at the time that the media would advise people they had messages back there. Dan Mitchell call home before leaving.

STATEMENT OF DAVID RUTLEDGE, PRESIDENT, FARMERS MUTUAL HAIL INSURANCE CO., DES MOINES, IA, REPRESENTING CROP INSURANCE RESEARCH BUREAU

Mr. RUTLEDGE. I'm David Rutledge, president of Farmers Mutual Hail Insurance Co., Des Moines, IA. I'm also president of the Crop Insurance Research Bureau, a trade association representing over 30 insurance companies writing both crop hail and multiperil insurance. Today I'm representing CIRB and on behalf of the members I want to express our appreciation to Senator Jepsen for permitting us to share our thoughts on the implementation and results of the Federal Crop Insurance Act of 1980.

My comments will be relatively brief as we are convinced that the multiperil crop insurance program has had sufficient time to prove its value to the American farmer and is in need of major changes.

After nearly 4 years of experience, the program has not met the expectations of Congress, the insurance industry; or the farmer. Participation remains low through 1983. Even considering the probable increase in 1984 as a result of the severe drought, we predict the participation rate will return to this low level as weather patterns return to more normal expectations.

Several of our companies are participating in the multiperil program as a reinsured company or master marketer. We have reviewed the third report by the Committee on Government Operations, whose Subcommittee on Government Information, Justice and Agriculture conducted oversight hearings on the Federal Crop Insurance Corporation.

In addition, in recent months we have developed a task force made up of our own members who are involved in writing multiperil crop insurance. They are working with the FCIC to make improvements in the administration of the program.

In our opinion, the objectives of the Congress, the administration, and the industry are identical; namely, to provide the American farmer with an efficient, effective Crop Insurance Program at the most reasonable cost to the farmer and the taxpayer. The present Multiperil Crop Insurance Program is not working to meet these objectives due to several factors.

Coverage is not structured to have universal appeal to the majority of the farmers. The complexity of the coverage applications creates confusion for the farmers who seriously consider participation. The agent recognizes this built-in roadblock to a professional sales presentation of crop insurance and becomes more of a respondent to MPCI inquiries rather than an initiator of sales.

The Congress and the administration annually deal with public pressure to respond with other Government payments in time of disaster. Since the previous disaster program was universal, it was made available even though coverage levels were low. Reconstruction of the present Multiperil Crop Insurance Program to address and resolve the inherent roadblocks to participation and farmer protection.

The mandate the FCIC received from Congress was really enormous. FCIC was instructed to create a new program with distribution of coverage on more crops throughout the entire country, and to make it work quickly at a reasonable cost. I think under ideal conditions this is a major undertaking. Considering the tremendous pressure from Congress, the farmer, and the industry, FCIC performed as well as could be expected.

The bottom line is to provide the farmer with an insurance program to replace the old disaster programs so a safety net be provided to avert financial disaster.

The present program needs simplification and major adjustments in the distribution of benefits. CIRB is developing alternatives to address these programs and looks forward to the opportunity to discuss these new concepts with your staff in a few days. Thank you, Senator Jepsen, for the opportunity to share our concerns.

Senator JEPSEN. We will start now to the right. Would you please identify yourself?

STATEMENT OF PETER E. RISBRUDT, SECRETARY-TREASURER, COMMUNICATING FOR AGRICULTURE, INC.

Mr. RISBRUDT. My name is Peter Risbrudt and I want to thank you for holding this Senate Agriculture Committee hearing on the Federal Crop Insurance Program.

I was asked to appear before your committee at the request of Janet Kinney of Alden, IA. Janet is a member of the board of directors of Communicating for Agriculture, Inc. I'm secretary-treasurer for CA, a national nonpartisan, nonprofit rural advocacy organization with members in over 40 States. Iowa is CA's largest member State. I am the president of CA Member Service Corp., a wholly owned subsidiary of Communicating for Agriculture, which specializes in tracking the progress of the Federal Crop Insurance Program for the members of CA. I also operate a 600-acre grain farm raising primarily soybeans and wheat and carry Federal crop insurance on all my insurable acres.

Attending this meeting with me today are Janet Kinney and Milt Smedsrud of Communicating for Agriculture, and Bill McDonald, president of Life Investors Insurance Co. in Cedar Rapids.

The Federal Crop Insurance Program has experienced a number of difficulties since the passage of the Federal Crop Insurance Act of 1980. It is easy to criticize any program, because no program is perfect. But Federal crop insurance can work. In surveying our CA farm members about disaster assistance, they support the idea of a federally subsidized insurance program over a federally subsidized disaster program by returns of over 2 to 1.

Adequate crop insurance at an affordable price is an equitable way of preserving the American family farm system from farming's natural risks.

I feel Federal crop insurance has developed into an insurance program the farmer-rancher-grower will buy. All farmers understand the value of using methods to lower their risks and increase profit. Today's farmers are in a position to foresee and exercise control over most risks. However, weather is still beyond the farmer's control as this

year's drought sadly proves. Federal crop insurance helps farmers guard against adverse weather, plant disease, wildlife, and fire.

I carry Federal crop insurance hoping I will never collect, just like I hope I will never collect on my fire and health insurance policies. Federal crop insurance gives me peace of mind.

I know before I plant my first seed in the spring that FCIC will guarantee me up to 75 percent of my average yield. I consider crop insurance premiums as part of my production costs just like seed, fertilizer, chemicals and fuel. It is a necessary cost in my farming operation. In past years the Federal Government used various disaster programs to assist and protect farmers. These disaster programs have helped keep many good farmers in farming. These programs have also assisted in maintaining a strong agricultural community which contributes heavily toward our country's balance of payments.

The problem with disaster programs is that there is no continuity. Farmers cannot foresee or rely on short term, quick fix disaster programs for sound risk management. What is needed is an ongoing program of insurance to provide coverage against the risks farmers cannot control. An insurance program backed by the Federal Government, and delivered by the private sector. The Federal Government is needed to provide the financial backing such a massive program requires, and also to insure that coverage is available for farmers in high risk areas. The private sector is needed to work its marketing magic, and to assume part of the underwriting risk from the Government.

Why hasn't Federal crop insurance been more successful and why hasn't the program been marketed successfully?

I feel that abuses in the program and slow claims service have created a negative image of the Federal Crop Insurance Program.

In any program of this magnitude there is room for abuse, and unquestionably, there has been some, but also many of the stories of abuse are unfounded. FCIC's record for 1983 claim service, based on 44,000 claims submitted, as Merritt Sprague indicated to you earlier, is 67 percent settled within 30 days of filing, and 85 percent settled within 45 days. This isn't perfect but it is much improved over previous years.

Many farmers have been lulled into believing they are "disaster proof" after years of record crops, and many ag lenders have discouraged their borrowers in the past from purchasing the coverage.

"Disaster proof" farmers and discouragement from ag lenders almost go hand in hand. Last summer's drought proved that even the Corn Belt isn't disaster proof.

Many changes in marketing and administration have been made in 3 short years since the creation of the act in 1980. These changes have been confusing for both agents and policyholders. It is time to back off from further changes, except for minor refinements, and let the program work.

Many farmers still count on the Congress to deliver a program of relief in the event of widespread natural disasters.

Farmers don't expect to receive something for nothing, but as long as Congress considers disaster relief as a potential alternative for a sound insurance program, it will hamper the growth of farmer participation.

Some farmers have been unable to take advantage of realistic and adequate insurance coverage per acre.

I firmly believe that a farmer will not buy more insurance coverage than he needs, but he should be allowed to buy the insurance coverage he does need. The individual yield certification program was started by FCIC for farmers to buy realistic coverage for their farms based on past yields.

The theory of IYC is sound, and I shall use my own farming situation as an example. The following chart lists by crop the average yield per acre established for my farm by FCIC and by my personal records:

[In bushels]

Crop	Years raised	Area average yield per acre—FCIC	Average yields per acre personal records	IYC increase
Soybeans	6	18	30.1	12.1
Wheat	8	22	32.1	10.1
Barley	8	35	59.4	24.4
Corn	7	59	85.1	36.1

As you can see, IYC will allow me to increase my coverage significantly, with no increase in premium. A functional IYC program is essential to the success of crop insurance.

The problem with IYC since its inception has been a lack of coordination between FCIC and ASCS, not at the top levels, but at many of the local ASCS levels. I attended meetings held this past Tuesday and Wednesday in Kansas City. I can assure you that much progress has been made between FCIC and ASCS. I am confident IYC participation will be much improved as a result.

FCIC management's goal is to have all crops insured under the IYC format within 4 years. This is a worthy goal, but I question if it is a realistic one. FCIC must provide an established yield with adequate coverage for those farmers whose coverage is severely curtailed by back-to-back crop failures, and for those farmers who are unable to establish individual yields for other reasons.

In summary, Federal crop insurance can now provide the farmer with the protection he needs at a cost he can afford. Federal crop insurance must be a joint venture between the private sector and the Federal Government to adequately protect the farmer. A continuous Crop Insurance Program makes sense over quick fix disaster programs. Let's make the American farmer aware of this commitment.

Finally, in my opinion, the necessary changes have been made to the program. Let's give the program a chance to work. Thank you, Senator.

Senator JEPSEN. We will proceed then. You identify yourself for the reporter and you may proceed. Thank you.

STATEMENT OF RICHARD C. GIBSON, PRESIDENT, AMERICAN AGRISURANCE, ALSO REPRESENTING REDLAND INSURANCE CO. AND CROP INSURANCE MARKETING, INC.

Mr. GIBSON. My name is Richard Gibson. I'm here today representing American Agrisurance, Redland Insurance Co., and Crop Insurance Marketing, Inc. These companies write crop insurance in over 20 States and represent a reinsurance program written on private insurance company policies and master marketing with policies issued and serviced by FCIC.

Let me review for you for a minute some of the problems as I see them that we have experienced.

The intent of the law in 1980 was to make Federal crop insurance a farm disaster program. It has not gained that acceptance for many reasons. Probably one of the most common ones in our territory is the continued talk of the implementation of disaster programs; something for nothing. Top level management changes within the FCIC with continual changes within the operations in Kansas City.

There have been overenthusiastic claims from FCIC management on participation levels, and probably these estimates were influenced somewhat by the dry spring and participation levels in 1981. These claims have resulted in continual oversight hearings by Congress.

There has been expansion into additional crops and counties resulting in rates and coverages offered on an unsound basis. The commitment of resources to these new programs leaves little time or money for improving the existing programs.

There has been development in the two delivery systems. Support of the reinsurance delivery system would allow reallocation of money and personnel to the development of sound actuarial rates and crop insurance programs.

Crop insurance is catastrophe coverage. It is intended to cover the expense when adverse weather conditions exist.

Crop insurance must be presented, as Mr. Sprague said, eyeball to eyeball and sold as an additional operating expense and that must be included in the farm operations plan. The program must be beneficial or the farmer or participant will not buy it.

The most important thing we must adopt is a credible IYC program that will allow the farmer, the agent, and the insurance company to develop a realistic crop insurance offer that reflects the farmer's own experience rather than the average developed by impersonal ASCS employees.

IYC plans have been discussed with FCIC and actual programs have been submitted and rejected by FCIC management. FCIC management must accept the fact that farmers, agents, and companies cannot and will not allow the ASCS to formulate insurance offers for them. I would like to submit a copy of that IYC proposal for your review with my written statement. Private companies must have the ability to conduct the MPCI Program at a level above the present program. We have been stymied at every level. We have representation from the farmer's hometown. The agents are competitive and they will solicit this business if the system is allowed to develop without constraints and bureaucratic control.

I have also with me today, I think, a summary of the performance of the private insurance industry. I do not intend to read all of them, but I would like to read a few of them into the record.[1]

The Federal Crop Insurance Act of 1980 mandated maximum private sector involvement delivering crop insurance protection to the farmers. Through private sector delivery, the Multiperil Crop Insurance Program, protecting and serving the farmer, has been greatly enhanced. The private sector delivery system is misunderstood and is now being challenged at the very time it is beginning to work. The follow-

[1] See p. 100 for the summary referred to by Mr. Gibson.

ing milestones indicate some of the major achievements of the private industry.

No. 1. The private sector insurance program offers protection through voluntary risk management options rather than hoping for Government bailout under the inequities of the old Disaster Assistance Program.

Protection is available to more farmers on more crops than ever before. Farmers choose their own protection level. The private sector provides use of private capital and risk sharing with the Government, thus reducing Government outlays.

Farmers can deal with the same insurance agent and policy issuing companies that provide their life, building and casualty protection.

Farmer acceptance of the private insurance program is very good as evidenced by the premium volume of $12 million in 1981, $75 million in 1982, and an estimated $125 to $150 million in 1983. This is private reinsurance paper.

Only the continued full utilization of the private sector has the option through the Government to use the Crop Insurance Program as the total low-yield disaster protection plan. Already it has permitted the elimination of the Disaster Assistance Program.

Prompt service is the advantage farmers most often identify in stating their preference to deal with private industry.

Claims servicing for farmers by private companies is less than the 30 days as required by the State Insurance Commission that regulates the private companies. The industry service response time is much better than that of the Government. In 1981 almost 60 percent of all the Government claims took more than 30 days to service.

Farmers are more satisfied with their dealings with the private sector as evidenced by the lower cancellation rates than those experienced by the Government system.

Almost 35 percent of the private industry policyholders are first-time policyholders compared to about 20 percent under the Government-delivery system. Therefore, the private sector can best obtain higher levels of new farmer participation in the Crop Insurance Program. The most effective and efficient insurance delivery system has been implemented by using the private sector.

The private insurance industry has long been recognized as an example of an efficiently operated industry which the Government should not be competing with or duplicating services. The financial resources of the Federal Government are necessary to provide reinsurance to the private companies, to cover the enormous risk of disaster protection for the multibillion dollar crop production of American agriculture.

Private industry's experience and expert knowledge in developing and administering insurance programs is adding to the stability of the Crop Insurance Program.

The maximum utilization of private industry through FCIC's reinsurance program will, over a time, be the most efficient system.

Last, but not least, private companies and agents are taxpaying entities at the local, State and Federal level. Insurance companies pay State premium taxes that average approximately 3 percent of the premiums written. If the private insurance companies make any profit

on their participation in reinsurance agreements with the FCIC they must pay State and Federal corporate taxes.

In response to a couple of other comments earlier this morning, I would invite you or your staff to visit my office at any time for further discussions on these problems facing us in this program.

If you would desire, we would like to submit a list of your MPCI policyholders that could be submitted to GAO.

I think one other thing that Congressman Evans brought up is that there is a benefit loss in transfer. I would support Mr. Sprague in his contention.

Second, all transfers from FCIC to MPCI are paid on the renewal commission rate; there is no fudging between first year and second year programs.

I thank you very much for being here and giving us the opportunity of being here today, and I would be very happy to participate with you or your staff at any other time. Thank you.

Senator JEPSEN. At this time I would ask the indulgence of the panel, if I may. I have been advised that the Iowa secretary of agriculture, who was scheduled to testify this afternoon at 1:50, has had an emergency situation develop. He still volunteers to give testimony, but needs to do so immediately.

The Honorable Robert Lounsberry, Iowa secretary of agriculture. We welcome you, Mr. Secretary. I have indicated that any written testimony that anyone has will be entered into the record. You have done this many times. You may proceed any way you wish, but welcome.

STATEMENT OF ROBERT H. LOUNSBERRY, SECRETARY OF AGRICULTURE, STATE OF IOWA

Secretary LOUNSBERRY. Thank you very much, Senator Jepsen, and the other members of the staff and panel for letting me testify at this time. I did have a conflict that I wouldn't be able to testify at the time allotted to me. I had something else that I have to take care of at that time.

I was just going to ad lib a second here. I do appreciate the opportunity to come here today. I come as an individual farmer who has had quite a number of years of experience in carrying Federal crop insurance. I started carrying when I first started farming after I came back from World War II.

Eventually I became disillusioned with it because it took almost a total disaster to get any value from it.

I had some experience of getting a little value from it in the year of 1952. I had been talked out of carrying hail insurance. On the premise it never hailed in our area, and we did have a disastrous hailstorm and I did get some reimbursement from the Federal crop insurance at a very low level. I continued to carry it for a number of years and dropped it for 5 or 6 years. Fortunately, I took it up again in 1976. Wouldn't you know, in 1977 we had a drought disaster in central Iowa and that year it did help me carry over some of the expenses toward planting another crop, because we had almost total wipeout.

Now for the prepared testimony. I spent a lot of time trying to put this down to three pages. I might say that in so doing I looked at some

of the records and saw that, due to the experience that I had in 1977 I will go on paying the premiums for that Federal crop insurance, even though it wasn't as good then as it is now and has the potential of being now. I will carry premiums for several years. I have said many times that do this if for no other reason than, as someone testified here a minute ago, I hope I never had to use it again.

For a number of years the Federal Crop Insurance Program has been very helpful for many Iowa farmers. Unfortunately, too few farmers have chosen to participate in the program. During the 1983 crop year only 17 percent of the farmers in this State purchased all risk crop insurance. This limited participation has been a long-time problem despite efforts to revitalize the program with the passage of the 1980 Federal Crop Insurance Act. Since then, 3 years of experience have shown that a number of changes must be made to mold it into an acceptable program. Without going into extensive detail I will outline a few changes which it appears must be made to make it a positive program.

In some counties in Iowa there are as many as 16 area land classifications. This hodgepodge is further confused by supplemental listings. It seems to me such program confusion could be eliminated if area classifications were discontinued and variances handled through minor rate changes. Actuarials should be based on ASCS established yield as recorded in ASCS county offices. An additional simplification would be to offer only two levels of coverage rather than the three present levels currently used.

As the FCIC program has evolved over the past 3 crop years, inequities have occurred. This is particularly true where an agent has written a new policy for a long-time policyholder. This procedure has caused many farmers to lose their experience discount, which was one advantage of continuous carrying of Federal crop insurance.

In fact, at one time my policy rates went down to almost half of what they were in the beginning because we hadn't had any losses.

On the other hand, there have been instances where a farmer with a loss record has been sold a new policy which is a defacto forgiveness of that loss. Private agents have caused most of these problems and they should be penalized accordingly. I recommend an immediate and complete investigation into those problems and a change of all pertinent records in accord with insurance experience. In each case where experience discount is reinstated, a refund of previous premiums should be paid.

To further clarify this program, serious consideration should be extended toward using only the master-marketing arrangement and voiding the reinsurance program. The MM's then should be coordinated by the FCIC supervisory personnel to work as closely as possible with the ASCS offices. The MM approach would add impetus from the private sector to enhance program growth through policy sales. The ASCS county records would provide the necessary information; and the ASCS county office personnel could be the focal point to receive and adjust all loss claims. The State FCIC supervisory personnel would maintain the necessary program consistency between and among States and counties as well as to provide a point of contact for the master marketers.

Paperwork and time delays for claims, et cetera, can and should be diminished. The Kansas City office now carries the entire national load, and believe me, when that massive computer breaks down all work stops on handling claims, and it is too bad that all the specialty crops are all handled through that one office. This is an awesome burden and I suggest that consideration be given to the establishment of regional offices for more timely handling of the entire program.

Planting dates should be moved back to normal dates as used in past years. It would be sensible if the Corporation and ASCS would adopt the same planting dates. The ASCS State director, in the event of weather extremes, should have the authority to reset the planting dates in accordance with the realities of the situation at hand. In other words, if you experienced a year like 1982 in southwest Iowa, there were fields that had to be planted after the normal planting dates and therefore they couldn't carry insurance on it, and I think if the State ASCS director had some authority to handle those individual cases where these extreme situations came up, had some adjustment on planting dates, it would be feasible and add to the program.

Additionally, FCIC employees and the MM agents should understand that replanting generally saves the Corporation money and reduces the loss ratio. It would be beneficial for all parties to expedite claims and payments for replanting, rather than to get bogged down and worry about the availability of test strips.

Providing Government low interest disaster loans to farmers who do not carry Federal crop insurance arouses disenchantment in those who do carry the insurance to protect themselves. Furthermore, the potential of Government aid in the event of disaster motivates farmers to ignore crop insurance.

The ultimate decision must be made soon whether Federal crop insurance will be the national disaster program, or just another Federal program. In this regard the Carter administration, with bipartisan support, made fundamental changes with the 1980 Federal Crop Insurance Act. Subsequently, the current administration, in a bipartisan effort, is supporting that concept. Together, a solid base has been formed to forge Federal crop insurance into the primary farmer disaster program of tomorrow.

I feel that this can be done if : No. 1, the Federal Government continues to shoulder 20 to 30 percent of the cost; No. 2, the program is simplified and available to all farmers; and No. 3, if the farmers are properly informed.

In conclusion, I am convinced that if the Federal Crop Insurance Program is properly corrected along these lines, it could, for the most part, solve the ever-present annual farm disaster dilemma.

Thank you, Senator, for allowing me to enter testimony here today.

Senator JEPSEN. Do you think it would be a good idea to take disaster programs, which are still in the statutes but have not been funded, out of the statutes for the psychological aspect and get it settled once and for all?

Secretary LOUNSBERRY. I think this has caused people not to carry insurance—they always feel in case of emergency, disaster, why, those disaster programs will be activated. I had that experience this year in Iowa in talking to farmers in drought disaster areas. I said, "Well,

there has been no money appropriated for the disaster programs," and they said, "Well, they will find money when enough pressure has been put on."

I do feel as long as they are in the statute you will always have that disenchantment with those people who choose not to carry All Risk Federal Crop Insurance as a disaster program. I think it is just like any other business, a person needs to look at it from that standpoint, that it is part of the business.

Senator JEPSEN. Thank you, Mr. Secretary. Have a good day.

Secretary LOUNSBERRY. Thank you all for letting me participate at a time other than was allocated.

Senator JEPSEN. If you will identify yourself for the reporter, you may proceed.

STATEMENT OF DON WHITE, VICE PRESIDENT, RAIN AND HAIL INSURANCE SERVICE, INC., DES MOINES, IA

Mr. WHITE. I am Don White, vice president of Rain and Hail Insurance Service, Inc., with corporate headquarters in west Des Moines, IA. I'm in charge of the company's Midwest division, which includes Iowa, Missouri and Arkansas. My office is located on Merle Hay Road. We service the CIGNA Corp., as managing general agent.

We have supported the 1980 act from its inception through MMA to multiperil crop insurance. In 1981 we wrote $400,000 premium MMA, $600,000 in multiperil; 1982 we wrote $1.5 million multiperil, $1.5 million MMA. In 1983, the MMA was $750,000, the multiperil was $1.6 million, but our policy count was double, the policy count was twice that of 1982, but the PIK program really reduced the premium.

The program has been improved materially in 3 years, but we have a long way to go.

We need time to streamline the program. We need time to develop a realistic yield guarantee. We need time to train the independent insurance agent. We need time for the agents to gain the confidence that the service in the private program will continue. We need time to build our staff to properly service the insureds and the agent. We need time to develop confidence with private companies to the effect that the Government will not jump or derail. We need time to eliminate the local politics, for example, unit maneuvering. We need time to develop actuarially sound rates, rules and forms. We need time for Congress to develop confidence in the long-term self-help program on the part of the farmer rather than another Government give-away program.

How much time? We believe 1984 will show good gain, 1985 will be more so, with the tremendous effort going into 1984 by private industry and the Federal Crop Insurance Corporation.

Private industry is willing, ready and capable of providing insurance to the agriculture sector with reinsurance from the Federal Government. We especially need 1984 and 1985 to streamline this cumbersome program that has taken FCIC 40 years of experimentation to develop. We are concerned about the necessary facility and personnel buildup that is necessary to satisfactorily carry out the program. We are concerned about the continuous hearings and investigations by congressional committees threatening this, that and the other thing.

Lastly, we are concerned over the competition and reluctance of some Federal agencies to let the program progress.

Thank you, Senator.

Senator JEPSEN. Thank you. If you would please identify yourself, then you may proceed.

STATEMENT OF TOM GAMRATH, GAMRATH-DOYLE AND ASSOCIATES, INC., FAIRFIELD, IA

Mr. GAMRATH. My name is Tom Gamrath. I'm with Gamrath-Doyle and Associates, Inc., in Fairfield, IA, and I'm an independent agent there marketing the Federal crop insurance.

Senator Jepsen, I was asked to come here today to testify as to my experience with Federal crop insurance and give any opinion in this area. I could spend hours, and I know I'm not the only one, crying about particular experiences with the Federal Crop Insurance Corporation and Federal crop insurance in general.

I also question the use of low-interest disaster loans when there was availability of Federal crop insurance, and I would commend Senator Jepsen for at least bringing this up when hearings were underway.

Still, hashing over individual situations will not do anything toward solving an expensive problem. As I see it, we need to determine whether we are going to have disaster aid, Federal crop insurance, or a combination. If Federal crop insurance is going to continue to exist, there must be greater penetration as only 17 percent of all eligible farmers carried coverage in the past year.

In talking with farmers, many of them feel that even if you buy the highest price and level of protection, it won't even pay for the cost of production. I'm not firmly convinced this is true. However, the fact is that the program is not attractive enough for acceptance of the majority of the farm community. I'm sure that a part of the reason for having such a small percentage of farmers involved has a lot to do with the economy and this is one expense that farmers gambled on, however, I still feel that this would not have significantly increased the participation or percentage of participants.

As far as any solution to the problem, the only suggestion I could make, and this is a possibility, is to allow the farmer to insure for his profit or at least a percentage of his profit to make the program more attractive. I still don't know if this would improve the penetration into the marketplace, however.

I would like to make at least one comment in regards to the administration of the plan, and that would be that I do feel that the plan is running much more smoothly with private companies handling the marketing and adjusting. I could give one small example, and that would be when I first started selling Federal crop insurance through the Federal Crop Insurance Corporation I received a stack of forms about 3½ feet tall. As this was turned over to private companies they replaced these forms with one simple form. I knew this was possible and it was fun to see the amazement of my local FCIC representative when he saw how private companies accomplished this feat.

In closing, I must say that I don't feel that I'm qualified or smart enough to give you any solutions to these problems. I do know that the country spends a lot of money on farm programs, yet it doesn't

seem to help the farmers' plight. I feel that it is time that the Congress and the President take a fresh look at all these programs and how they relate to each other.

Thank you.

Senator JEPSEN. Thank you, Tom.

Yes, sir, you may proceed.

STATEMENT OF ROBERT E. FULWIDER, REPRESENTING INDEPENDENT INSURANCE AGENTS OF IOWA

Mr. FULWIDER. My name is Robert Fulwider. I'm an independent insurance agent residing in West Liberty, IA. I presently own two insurance agencies in West Liberty and West Branch; respectively in Muscatine and Cedar Counties. I am currently serving on the executive committee of the Independent Insurance Agents of Iowa and this year am chairman of that organization's Rural Agents Committee.

Senator, I wish not to belabor the salient points of the Federal Crop Insurance/Multiperil Crop Insurance Program. I would rather take the portion of time alloted me in this testimony to speak very candidly with you about the problems that I, as an independent agent, and others like myself have encountered over the past seasons as we have attempted to market multiperil crop insurance on a State and national basis.

Established in history is our State and national organizations' attempts as well as the entire industry's to market multiperil coverage via the Federal Government. We did not initially favor the program as we thought it was a further encroachment upon private enterprise by the Federal Government, and feared the offering of all-risk crop insurance nationwide would lead to additional lines of coverage being afforded by the Federal Government.

History is now behind us and proved the entities involved in the original implementation of the program were correct and incorrect. Obviously the encroachment we all feared did not occur because of the foresight of people in Congress like yourself realizing other lines of coverage were being adequately handled by the private sector. We then joined forces with you in attempting to broaden the base and scope of the program making it available for more farmers to participate via a national network of private insurance companies and their agents offering the product to the consumer.

Our first 2 years of sales by the private sector involved a very complicated and misunderstood program. The farmer, the FCIC Corporation, the ASCS and the private insurance industry were kept continually confused and rushed into the marketing system before they were actually ready to begin that task. You will recall three methods of marketing originally transpired: Federal crop insurance coverage via the Federal Crop Insurance Corporation, FCIC via the private sector master marketing program; and the All-Risk Multiperil Crop Insurance Program via private industry and reinstated by Federal Crop.

We gained little ground in those first 2 years. Our industry was criticized for failing to increase the program participation. We feel very strongly that criticism was unjust, and I will cite the reasons why.

First, the timing was not structured to allow the program to fall in place before the current growing season was underway.

Second, to make the marketing function as equitable as possible, most any agent in the country was eligible to obtain a contract. This resulted in an enormous duplication of contacting, contracting, educating, and supplying the masses rather than a smaller marketing force as previously utilized.

Third, private carriers rushed to get in line to establish their share of the marketplace. Agents were forced to scramble to align themselves with various carriers without taking time to decipher the programs and marketing systems available to them.

Fourth, FCIC employees became fearful of encroachment upon their own jobs and began to align themselves with various marketing organizations.

Fifth, farmers became very confused with the three types of distribution systems available to them.

Sixth, cooperation via the ASCS offices ground to a complete standstill as many of those employees felt threatened by the program changes.

Seventh, the actuarial department of the Federal Crop Insurance Corporation was turned inside-out with numerous requests for reclassification of clients' ground.

Last, the national service office in Kansas City was ill-prepared for the gigantic increase in paperwork suddenly thrust upon it.

Consequently, the resemblance of a Chinese fire drill ensued. Farmers, agents, some marketing organizations and others abandoned the program with uncertainty.

The following year improvements were realized in the organizational network, as many of us in the private sector were required to select a particular marketing system with which to affiliate to offer multiperil crop insurance. If we chose to remain with the master marketing organization, a national certification program was required on the State level. Many agencies fearing increased requirements placed upon them by their respective carriers and facing diminishing numbers of policyholders chose to abandon the program altogether and no longer offered the coverage. The industry began a taming-down process but ran into additional problems with farmers suddenly spending lots of time studying their respective policies and realizing they did not indemnify today's costs of agriculture.

Guarantees were far too low to meet production costs, pay interest, and place food on the table. Once again, many farmers dropped their coverage feeling it was inadequate.

This past growing season, Senator, has been a serious drought situation, especially in my area of the State. Many of my farm clients who had never received a Federal crop payment would have qualified for reimbursement if they had kept their policy this past growing season. For those who did receive indemnification many complained their payment was too low, and I must admit some of them have chosen to leave the program as a result.

Some agents have been successful in marketing the program to new clients. It remains to be seen if new production offsets canceled policyholders.

As independent agents in Iowa we feel the following situations currently exist and improvements are needed: No. 1, it is too early to evaluate the total effectiveness of the many changes imposed upon the pro-

gram. We need time to work with the Government, our companies, and clients to develop a program more suitable to the farmer's needs.

No. 2, the guarantees as presently offered are weak and unattractive to the majority of the producers. To engage big farming operations in the program, thus increasing our overall volume, the guarantees must be strengthened to gain their enrollment.

No. 3, under no circumstances should the distribution system return to the Federal Government as suggested by Congressman Cooper Evans. Via private industry competent, knowledgeable agents are strategically located throughout this State and the entire Nation to sell and service the program.

No. 4, future attempts to offer disaster payment benefits in lieu of multiperil will only cloud the issue. This is the program that can provide the majority of resources at a minimum cost. When the farmer realizes this program will meet his needs and no other alternatives exist, he will enroll.

No. 5, Merritt Sprague and his organization should be allowed to continue their efforts to improve the program and join hands with the private insurance industry in removing the ambiguities and inconsistencies of the program, increasing the guarantees available to the farmer, evaluating and adjusting rates to make the program both equitable and profitable, and allowing more control via the companies in determining the individual yield-program requirements and guarantees.

No. 6, the knowledge and expertise of trained and experienced insurance company personnel should have more latitude in determining an actuarially sound program. The private sector has much to gain or lose in the program.

No. 7, the method of establishing the IYC yield records leaves much to be desired. Ten years of records prove very little, as a farmer certainly isn't farming today as he was 10 years ago. We encourage lowering required records to 5 or 6 years, with the elimination of the immediate past year from consideration. The last year's yield would not enter into the picture until the following growing season, at which time the oldest year on record would drop from consideration.

Last, the ASCS office should be instructed to cooperate entirely with our efforts to market the program. Too many documented cases reflect noncooperation, as well as deliberate interference in the orderly flow of the program.

A 17-percent participation concerns us, too. We feel we can improve upon those figures and are willing to actively pursue our involvement until they become a reality.

Thank you.

Senator JEPSEN. Thank you, Bob. Very well put.

Will you please identify yourself and then you may proceed.

Mr. CRAGGS. Senator Jepsen, I'm here representing Loran Schultz. We are involved with Omaha All-Risk Co., Inc., Adel, IA.

Senator JEPSEN. Your name, sir?

STATEMENT OF JOHN CRAGGS, REPRESENTING LORAN SCHULTZ, SCHULTZ INSURANCE SERVICES, WEST DES MOINES, IA

Mr. CRAGGS. John Craggs. Mr. Schultz was unable to attend this due to an untimely death in his family.

It is a pleasure to have an opportunity to express my concerns and offer suggestions in regard to the Federal Crop Insurance Program. I represent nearly 100 agents doing business in Iowa with 9,500 farmers.

These farmers paid $9.7 million in premiums for FCIC protection in 1982. The same number of farmers paid or will pay approximately $5.6 million in premiums for 1983. The reduction in premiums is due to less planted acreage because of the PIK program and lower price elections on corn and soybeans.

I project that the agents in Iowa will experience a large increase of business in 1984. There is increased interest in the program due to the crop loss of 1983. Price elections on corn and soybeans have been increased, and lending institutions are recognizing the need for insured loans on crop production investments.

However, there are a number of problems with the present FCIC and MPCI program, some of which will need to be corrected if 50 to 60 percent program participation is to be reached. I would like to take the opportunity to list several major problems and suggest solutions to each of them. The areas are as follows:

Problem: Farmers carrying FCIC in 1983 are not receiving timely payments on claims from the NSO in Kansas City. When they do, the form 75, which explains the loss, is generally 4 to 6 days late. This causes numerous calls to agents and dissatisfaction with the Crop Insurance Program.

Solution: I suggest that claims be sent directly to Kansas City to avoid review and delay by field supervisors and the Iowa Field Operation Office. If a problem claim results in this method, a correction would need to be made, but most claims would be handled without any problems in 2 to 4 weeks less time. MPCI companies seem to be able to handle claims in 2 to 4 weeks. FCIC claims could be handled by ASCS adjusters and claims paid by the ASCS office. This would eliminate the time lag and workload in Kansas City and result in more satisfied insureds and lenders. Explanation of the claim form 75 should also be mailed with the claim payment.

Problem No. 2: Rejection of late filed applications for insureds terminated in error by NSO or because of late premium payment were not allowed to be reinstated.

Solution: Late filed applications should be accepted as long as crop conditions warrant and prior year premium payment has been paid or agreement for payment made. MPCI companies do extend privileges here that are rejected by FCIC personnel.

I was able to place some business with reinsurance companies that was rejected by FCIC. Losses on these late filed applications were no greater than the timely filed applications.

Problem No. 3: Master marketing commissions delayed by NSO and finance division. Delayed premium billing, slow claims payment and FCIC administration problems resulting in extremely slow payment of commissions to agents that service crop insurance through a master marketing company. In many cases, agents are 12 to 20 months late in receiving earned commissions under the master marketing contract. This causes little interest and great dissatisfaction in the marketing and servicing of Federal crop insurance.

Solution: Reinstate the commission advance that was available in 1982 so that master marketers can advance some commissions to agents

to help curtail expenses. Many farmers do not want insurance through private MPCI; especially those who have carried insurance for a number of years. Switching to MPCI insurance eliminates this problem. I am recommending that all new business written by my agents be placed with private industry. MPCI companies receive administrative advances. Master marketing companies should have the same consideration.

GAO audit revealed that master market was a more economical way to administer the program. A commonsense approach to FCIC loss adjustment and claims handling through ASCS could further reduce the administrative costs and result in better service to the farmers. Small farmers are not treated fairly by agents since commissions on small operations do not leave any profit for agents in areas where acreages are small and premiums less than $100 per contract. Commission reductions on large premium contracts also discourage agents.

Problem No. 4: Actuarial material is too complicated. This confuses both farmers and agents and results in excessive A/R review work and dissatisfied policyholders. This results in lawsuits against agent E and O insurance, and also increased loss adjusting costs.

Solution: Simplify actuarials in Iowa by eliminating supplemental listing, clarify maps and reduce number of areas to three or less for each county. The actuarial division has simply complicated the books to where the average agent becomes discouraged in selling the program. ASCS 156 cards with projected yields could be used to simplify actuarial structure. This was done in a few counties for several years and worked very well. Changing actuarials for the sake of change has caused many farmers to become discouraged with the program.

Problem 5: IYC is overadvertised and is not the solution to all actuarial problems and is creating unit problems.

Solution: Get more factual IYC information in press releases. Use current unit guidelines under one ASCS farm number. Where the farmer does keep production records by farm, allow him to have more than one unit under ASCS farm number. Instruct ASCS offices and agents to hold joint meetings to understand each other's problems and to create better working relationships. If the farmer's records are satisfactory to ASCS, FCIC actuarial people should go along with their production records and units.

Problem 6: 1984 planting dates moved forward, reducing protection for farmers forced to plant late due to an abnormal planting season. Replant problems in 1983 caused a considerable amount of dissatisfaction among policyholders.

Solution: Move planting dates back to normal dates used in the past years. Emphasize and explain replant benefits to farmers in advertising and press releases. Train FCIC employees that replanting generally saves the Corporation money and reduces the loss ratio. Pay farmers for replanting rather than hassle them about improper test strips being available. Commonsense used by the farmer to replant timely is important. ASCS should help explain program benefits. Also planting dates for FCIC and ASCS should be the same.

Problem 7: Policy transfers and agent harassment of exiting policyholders. Loss of good experience and rewriting new entities to eliminate bad experience.

Solution: Eliminate transfers completely. The only way a farmer's business should be transferred from agent to agent is by the cancella-

tion of the policy by the farmer prior to the cancellation date and rewritten with the agent of his choice by the sales closing date. Private agents have caused this problem and should be reprimanded and told to sell new business. Many long-time policies have been transferred to MPCI companies and farmers have lost their earned discounts. These discounts should be recredited to the insured and the company responsible should reimburse the Corporation for the overpaid premiums and commissions. The agent should be penalized in the same manner. Hundreds of farmers that had good experience discounts no longer carry insurance because companies and agents wrote new applications and did not transfer experience. The companies and agents benefitted unfairly at the farmers' expense. FCIC employees tried to resolve this problem and were told it was not possible to correct and to leave the matter alone. I suggest further investigation in this matter and urge that farmers have their good experience credit applied to 1984 premiums.

Problem 8: Low interest disaster loans available to farmers not carrying FCIC or MPCI causes dissatisfaction among farmers who do carry insurance to protect themselves. Require farmers who do not protect their financial interests and their lending institutions to solve their own problems when crop losses occur. Farmers can purchase FCIC or MPCI on their 1984 crops now. This will guarantee that any loan needed to continue their farming operation will be secured by crop protection or crop insurance indemnity checks. When disasters like 1983 do occur, give farmers an option of taking surplus commodities or dollar indemnities.

Example: A farmer had corn insured for $2.70 per bushel, the market escalated unfairly due to PIK and short crop. If the farmer chooses, let him have corn bushels equal to his bushel loss since he could not insure at a high enough dollar election to replace the corn at the higher price. This would be an incentive as well as a stabilizing factor to prices in a disaster area. ASCS could handle this with very little effort.

I feel that the farmers and the financial institutions are ready to accept crop insurance as a basis for guaranteeing a fair return on money invested to feed this great country and contribute to our world trade situation. Standing firm on this program and making necessary program improvements is a must. Private industry is contributing to the success of this program.

Because private companies are regionalized they avoid many problems that FCIC now has. Kansas City simply cannot handle all the crop problems for the entire Nation. More area offices over the State to handle area programs would be a better approach. Special programs for hay and grassland as well as seed corn are needed.

Crop insurance is the best approach to disaster programs. Farmers should pay for protection if they want to stay in the farming business. Subsidizing the program 20 to 30 percent should be continued. The existing program will work if simplified and if supported by practical ideas.

If private industry is expected to make it, we must allow more input from the insurance industry. However, if it is to be a farm program, State and local ASCS offices should be utilized. Insuring proper entities, getting correct acreage and production information, as well as

assisting in collecting premiums, these are the ways in which ASCS offices could help.

If I finance a car or house, I am required to carry insurance on same. If a farmer finances his crop production costs, he should also be required to insure for the risk involved. Subsidizing that cost should allow a fair coverage at a reasonable cost for all farmers who want protection. One or two levels of protection should be adequate, one or two price elections at or near Government loan level with the option to take commodities if the price is unfair due to crop shortage.

Last but not least, timely claim payments as well as salary and commission payments to agents and adjusters must be made.

Thank you for allowing me to express my opinion which is supported by most of my agents and the 9,000 plus farmers whom they serve.

Senator JEPSEN. I thank you. I would like to ask the panel a direct question and get a yes or no answer from each one. The same one I asked the Secretary of Agriculture. Do you feel that the present statutes that are on the books or that are not funded that provide for some disaster payments should be taken off the books? Yes or no?

Mr. FULWIDER. Most definitely yes.

Mr. WHITE. Definitely, yes.

Mr. RUTLEDGE. Yes.

Mr. GAMRATH. Yes.

Mr. GIBSON. Yes.

Mr. RISBRUDT. Yes.

Mr. CRAGGS. Yes.

Senator JEPSEN. Do you feel that the commission arrangement vis-a-vis the private companies is adequate?

Mr. FULWIDER. Are you talking about the private companies that are now offering the Multiperil Crop Insurance Program?

Yes, very definitely the private industry has improved the elimination of much of the paperwork that was formerly required by FCIC. I can personally live with the program and make a profit, so I'm happy with the commission.

Mr. RISBRUDT. We feel that compensation is adequate for our agents right now.

Mr. RUTLEDGE. I think it is adequate.

Senator JEPSEN. Anyone else care to comment?

What type of information do you have in the private agency that the FCIC doesn't have? Do you have a general comment on the problem of the list that we talked about earlier with Mr. Sprague by way of getting adequate information?

Mr. RISBRUDT. I don't necessarily believe that we have more information than FCIC does. They seem to have a problem with their data processing equipment and coordinating with ASCS, in my opinion.

Mr. GIBSON. I guess I would like to ask a question back. When you say the list, are you referring to the list in the ASCS office of the producers, and is that effective and is it a tool which a private agent could use? Is that the question?

Senator JEPSEN. Yes.

Mr. GIBSON. I'm not sure it is absolutely necessary to have that type of list in Mr. Fulwider's agencies in that particular town or other towns. Independent agents are very competitive. They travel the road up and down, and I think it is many times used as an excuse to say we

need a list. I hope he agrees with me, but this business is competitive. Agents are competitive and they do call on farmers.

Senator JEPSEN. Mr. Fulwider.

Mr. FULWIDER. I would concur with that, Senator, and I would also, as a sidelight, add that we have personally found the first year the program was instituted we approached our six county ASCS offices in our marketing area to obtain a list of their current producers on that list. Three of the counties flatly refused to give us the list. One county told us we could come in and copy it. One county told us they did not have a list, and the other county did cooperate and provided it.

Senator JEPSEN. Does anyone on the panel have any final statement or anything they would like to say in closing?

Mr. GIBSON. Again, the Secretary of Agriculture made a statement indicating there seemed to be a problem in farmer producers losing their credits, and I find that very difficult to believe. The credits on existing FCIC business, they are produced on a list in Kansas City, they are forwarded to those people under a master marketing or reinsurance agreement. I do not think that is a serious problem. I would refute that remark, and I hope, again, people here on this panel and the agents and companies would also make that same statement.

Senator JEPSEN. Anyone else?

Mr. GAMRATH. The point I would like to make with private industry involved, I think it increases competition. I think if the product was more palatable, better dog food for the farmers, I think we would have something to sell, and I think you would see a dramatic increase in farmer participation if the product was more palatable.

Senator JEPSEN. Does anyone else have any statement in closing?

Gentlemen, I thank you very much for your participation.

I realize you can't all testify, but I am truly impressed at how many have turned out today and I would like to have you testify with your hands, all of you, for a few minutes here.

How many here in the room today have or have had Federal crop insurance? Would you raise your hand, please?

That is approximately 70 percent of the people here.

How many of you have made a change over the past 4 years?

That is about 5 percent.

Unidentified SPEAKER. Define change. What do you mean by change?

Senator JEPSEN. How many of you have changed from the Federal Crop Insurance Program to a private insurance program?

Thank you.

How many have made a claim over the past 4 years?

Approximately 10 percent of the 70 percent.

How many were at least reasonably satisfied with the manner in which the claim was handled?

That is about 2 percent. About 5 percent of the ones that had claimed.

How many were dissatisfied with the way the claim was handled?

Thank you. A very small percent.

How many of you feel that the premiums are too high for Federal crop insurance?

How many of you feel the premiums are reasonable?

Most of the people feel the premiums are reasonable.

How many of you feel that the Federal Crop Insurance Program is administered in a fair and efficient manner? Mr. Sprague does. Let

me try that one again. That is kind of like the Army. You don't need to ask the other half of that question. We had one person feel it was administered OK, and I assume the rest had some problems with it.

How many here would feel that we should take the disaster payment provisions that are not funded now off the statutes? I believe that is more people than carry insurance.

This is kind of personal now. How many of you felt or were reluctant to sign or did not sign up for Federal crop insurance because you didn't expect a crisis situation?

One honest soul here.

How many of you intend to sign up for the Federal Crop Insurance Program for 1984?

About 40 percent.

Finally, if you have any recommendations regarding how to improve your coverage or the role of the Federal Crop Insurance Program, I would invite you to please write me. I will assure you that your letters will be considered, and the information will be brought to the attention of those who are working on it.

How many here are from southern Iowa, the southern tier of counties in Iowa?

There is a question someone has? I will open that up later on.

Unidentified SPEAKER. Senator, you asked about premium. Would you ask how many would be willing to pay more premium for better coverage?

Senator JEPSEN. I sure will. How many would be willing to pay more premium for more coverage?

It is obviously a good question because the overwhelming majority of people expressed they would do that. Thank you for that question.

Yes, ma'am.

Ms. TEAGLE. A question that might give an answer that you are looking for is how many would rather have a per acre loss settlement rather than average loss settlement, the problem with discrepancies in units?

Senator JEPSEN. The question is how many would prefer a per acre rather than an average acre settlement. Is that the question?

Ms. TEAGLE. Like crop hail insurance. If you have an acre damaged by hail, that acre is adjusted. For Federal crop you may have 40 acres damaged by drought and the 120 acres of that unit is all right, and yet you don't get any payment because the average yield is still not below that particular yield.

Senator JEPSEN. Get back to the question again. Would you prefer a per acre adjustment rather than an average acre adjustment? Yes? No?

Surprisingly enough the noes were rather substantially in the majority.

Thank you very much for your participation.

At this time I would advise you we will take one more panel prior to lunch. There are three people on it. Would Karol King, Raymond Heck, and Jerry Kincart please come to the panel?

I would advise you there is a buffet facility here, I understand a good one. We will recess for 1 hour. Strike that. We will recess for 45 minutes and then we will reconvene back here at whatever the time is when this panel finishes. At that time we will start out with the next

panel, which will consist of Leslie Miller, Russell Booth, Roger Engelkes, and Jim Healy, who are in the finance business.

Mr. Raymond Heck, the Iowa Soybean Association, you may proceed.

STATEMENT OF RAYMOND HECK, PRESIDENT, IOWA SOYBEAN ASSOCIATION

Mr. HECK. I'm Raymond Heck, president of the Iowa Soybean Association, director of the American Soybean Association, and a farmer from Perry, IA.

The American and the Iowa Soybean Associations both believe that if Federal crop insurance is to be continued it must be improved. At the 1983 national convention the delegates passed the following resolution.

ASA favors a realistic, USDA supported Crop Insurance Program which is equitable to producers of all major farm commodities. We encourage its earliest extension to all producers of significant agricultural commodities.

American Soybean Association encourages USDA Federal Crop Insurance Corporation to standardize loss inspection procedures and expedite settlement of claims. ASA also supports yield coverage being based on proven production on individual farms rather than on soil types or geographical areas.

I had quite a bit more in the prepared text that has already been commented on.

I would like to talk a little bit about some of the things that were mentioned earlier as a farmer, not as a representative of the Iowa Soybean Association. One was Cooper Evans' reference that 13 percent of the farmers in Dallas County had Federal crop insurance in 1983 and in 1981 they had 70 percent. I managed a few farms in Dallas County and I live in Boone County about 5 miles from the Dallas County border. After that reference I heard another reference that gave credit to the fact that ASCS went up and down the road to sell it. My own personal opinion is, and I have talked to one other Dallas County farmer in the group, that just wasn't so. The reason for the large participation was that we had an extreme drought going that year and there was less than a 50–50 chance of even raising a normal crop. That is why they sold a lot of insurance and I bought it myself for the first and only time. In my case I know that is the reason.

I would have to say, although I don't have crop insurance, they are slow in their adjustments. I don't know how slow the check is afterward because not having collected any or participated I haven't heard any complaints about that locally, but I know a lot of stripped fields stood in our area a long time, maybe a month. after the rest of us were all done harvesting, waiting to get their field adjusted so they could do their fall work.

I just came from a national board meeting and the national directors were talking about Federal crop insurance. There were several complaints from the southerners. I don't know if it has happened up here, but a lot of them are complaining that the farmers were complaining that their checks were going directly to the bank in Federal crop insurance and didn't even have their names on them. We know that is

where they should end up anyway, but we didn't think it was quite proper that the farmer at least didn't have his name on there to know that the check came. In some cases, the first they knew their name wasn't on it is when they went in to see why they didn't get their checks.

Senator JEPSEN. I never heard of a check without a name on it.

Mr. HECK. I haven't either, but these were reputable people. On another subject, I'm not a supporter, personally, of low cost disaster loans, but as long as they are going to continue them for other sectors I think agriculture should be included too. With that I close my testimony.

Senator JEPSEN. Thank you. We have no trouble understanding you, Mr. Heck, and most Iowa people are that way. That is a characteristic that we are all proud of.

Karol King from the Iowa Corn Growers Association. Is it Iowa County?

Mr. KING. It is Harrison County.

Senator JEPSEN. You may proceed.

STATEMENT OF KAROL KING, REPRESENTING IOWA CORN GROWERS ASSOCIATION

Mr. KING. My name is Karol King and I'm from western Iowa, Harrison County. I'm representing Iowa Corn Growers Association. I have a prepared text and I'm going to summarize it and I think it will expedite things a little bit.[1]

Basically the corn growers feel that the Federal crop insurance in its present form is not sufficient to replace the Federal disaster program or Federal disaster assistance that is in the ASCS right now. Basically, we feel it doesn't do this because it doesn't address the economic problems of modern agriculture.

Take an example. A hundred acre farm and this farmer is a good farmer. He has 140 bushels per acre yield on that farm. Under the present program, 75 percent of that can be insured, or that would be 105 bushels per acre for that farm. At the maximum rate of $2.70 a bushel, you could insure $283.50 per acre under the present program. The premium would run, as Iowa average, say 4 percent or $11.34 per acre.

Take last summer. In 1982 the Iowa average was 121 bushels per acre in 1983. With the drought it dropped down to 85. That is a 30-percent reduction. Let's assume this farm had 30-percent reduction and was an average farm, so he would have 100 bushels per acre yield last year. This summer he would collect $1,350. His insurance premium would have been $1,174.50. That would give a net payment of $175.

Let's assume it was a total wipeout in southern Iowa. He would collect $28,350. His insurance premium was $1,174. That would leave him $27,175.50 in net payments.

According to the Iowa State University cost of production figures on 140 bushels of corn following corn that would take $378 per acre to plant that. That is the fixed cost of land at $145 per acre and the seed, labor, fertilizer and so on. It would have cost him $37,800 to plant

[1] See p. 101 for the prepared statement of Mr. King.

that corn, and he would have lost $10,624.50 with a complete wipeout and being insured at the national level.

We feel that instead of the 75-percent figure a farmer should be able to insure that at a higher level, 90 percent or somewhere in that range. This is also assuming that they would be paying reasonable and appropriate premium rates for that coverage.

On the disaster program, we feel like it should be left in place as long as the Federal Crop Insurance Program is in its current state. Also, as the gentleman from the soybean association stated, as long as the other sectors of the economy have disaster assistance, whether it be a hurricane or whatever. I can see no difference in a hurricane or drought in different sections of the country as far as disaster assistance is concerned.

As far as the yields under the FCIC, if you want to prove your yields right now you have to go through the IYC, and there is no reason why you can't use the current ASCS proven yields. It is my understanding through the agent in our home county that the IYC will not accept those ASCS yields. If they are good enough for the ASCS through the PIK Program, they should be good enough for Federal crop insurance in the same area.

It was probably mentioned a little bit earlier, but we feel there are some real good insurance agents out there and some that apparently don't have the drive to go through some of the hassles and the administrative nightmares you get into with some of these different categories on different farms. The agent there in the county showed me one particular field, 163-acre field that had three categories of land on it and it had to be separated out with different premiums. They resent a lot of this stuff. They start to lose the drive to sell the insurance.

One other thing I wanted to mention which is not real big in Iowa but it is for western Iowa and probably eastern Iowa and getting into the other States, is the irrigated versus nonirrigated land. Those have to be separated out under IYC. I have 400 acres that my father owned, 280 that are irrigated and the rest of it is dry land. It goes into the same bins. We treat it as one operation, but we will never be able to prove yield because those have to be separated. They will not accept a common average figure for all those figures. They have to be separated.

I guess in closing I would like to say that if the insurable levels are raised and the premiums are reasonable and proper and at a reasonable level to be insured at and some of these administrative nightmares that I mentioned before are removed, I think the participation would be really increased.

Senator JEPSEN. Before introducing the next panel member, I am reminded of a poem that Helen Kromer wroter in her play "For Heaven's Sake" and it is called "One Man Awake."

ONE MAN AWAKE

One man awake,
Can awaken another.
The second can waken his next door brother.
The three awake can rouse the town,
By turning the whole place upside down.
And the many awake, make such a fuss,
They finally awaken the rest of us.
One man up with the dawn in his eyes—multiplies.

36-721 O - 84 - 7

Jerry Kincart, you have read about him. I met him earlier this year and he is certainly one man who has fought the battles for many, who alerted those of us in Congress, both with written and with direct telephones and personal contacts, with regard to the serious situation as it developed in the drought situation in southern Iowa. He has taken the role of leadership there. With the recent publicity being badgered back and forth what he did or didn't say or somebody else said, you know what it is like to be in the arena. Jerry, I want to thank you and express both my respect and appreciation for what you have done in the last year by way of helping all of us to get a better picture and perspective, and at times urging us to take action a little quicker than maybe might have otherwise happened. I commend you for it and I welcome you to the panel.

You may now proceed.

STATEMENT OF JERRY KINCART, DAVIS COUNTY FARMER

Mr. KINCART. Thank you, Senator. I must admit I am one of five on the Drought 1983 Committee. There are three other farmers, myself and a farm lady. We call her one of the guys. She is kind of out numbered. We came into the drought situation, we saw what was available, we went to our Iowa congressional delegation. We have pled the case and I must commend the Iowa delegation on their acceptance and their initiative in trying to get implemented drought disaster help. I realize things don't move as fast in Washington as they can move at home, but we hope in the next session of legislature that takes up in January that maybe some help can come to help stabilize the family farm as we know it today.

To get on with my testimony on Federal crop, thank you very much for inviting me up to testify. I did some work on the actuarial tables between 1983 and 1984, and the only difference I can see, other than some of the fine tuning aspects, is that the producer can look for a 20-cent increase in the price per pushel of corn and 50 cents on the price per bushel of soybeans. That is in level 3 price election C.

There is a large increase for the use of narrow row beans against standard planting row beans. Those are the ones you can get through with the cultivator, or NIBR you can't get through with a cultivator. For the farmer using the modern soybean practices of the narrow row beans, and this is stipulated in the American Soybean Association's research, their magazine with Iowa State University, there is a yield increase to offset the cost of the equipment and they have penalized this farmer 88 cents an acre over the standard rowed soybeans.

In my home county, Davis, there is 109,289 acres devoted to pasture and timber use. Explaining the combination of that, 95 percent of all timber or land classed as timber is also used as pasture ground on these farms.

According to the Davis County land-use summary comparing land use of the years 1960 to 1980, land put to the plow increased 19,588 acres. For the total row crop of 195,631 acres our pasture and timber land decreased by 10,379 acres.

Additional land brought into crop production has resulted in a larger operating cost that the producer has incurred by either the

embargo of the Carter administration or skyrocketing interest cost. Also coming into play is the nonprofitability to the cow-calf producer to which most of the lost timber and pasture ground was used for. If Federal crop insurance is going to be effectively used by the American farmer, then it must be geared to not only the grain farmer, but also it must encompass the livestock producer. The cow-calf and dairy farmer treat their hay and pasture ground as if they were cash crop acres. That is to the effect that fertilizing, liming and crop rotation are the main tools of the livestock producer. The livestock producer cannot insure hay or pasture at this time, and he should be able to insure his hay or pasture as the grain farmer can his corn or soybeans.

As for making Federal crop insurance more acceptable to Davis County farmers, the first step would be to make it first dollar loss coverage. This means if you insure for 86 bushels on level 3 area 6 and had a production of 80 bushels on one half and 90 bushels on the other half of the farm, you would be insured on the 6-bushel loss, thereby, not allowing FCIC to average your total farm production.

Also, raising level 3 area 6 limits to the area average yield, these are examples, to 125 bushels, and the production guaranteed to 100 bushels and adjusting other levels and areas accordingly would induce much greater participation.

Simplifying the individual coverage plan, as presently there are 16 qualifications being used to determine the individual yield and this could, I believe, be greatly reduced. As an example, by use of the grain scale tickets of grain sold on either all owned grain or 50–50 grain use of acres planted against pounds of beef sold or pounds of milk in any given year or years, this with fertility and crop harvesting history would greatly shorten the process. This example is in the program but there are about 12 or 15 other things that go along with it that kind of complicates it, and I don't think it is really necessary. What looks simple to the farmers is not always simple to what we call the Philadelphia lawyers that dot the i's and cross the t's.

Land or area classification is totally inaccurate in many areas of our county. One of our fields is classed as area 6. The farm lying east of this across the fence has an area classification of 2. There is also ground west of Bloomfield with the same production as ours that is classed 3 and 4. This land classification needs some serious consideration.

What this all comes down to is, in a bad year, all a farmer or livestock producer hopes to do is break even, meeting his total cost of production. In a good year the producer hopes to make a profit. I don't believe this is too much to ask.

A good businessman will insure his business when he is certain his cost of insurance will cover his loss and keep him in business. As Federal crop is today, this will not happen.

Our farm was in the PIK program and we did not have Federal crop insurance. Had we taken our Federal crop insurance with our PIK, we still would have accrued a $15,000 loss.

If that statement holds true, which Mr. Frank Naylor stated, that the only game in town for disaster help for the American farmer is going to be Federal crop insurance, we at least need to be able to cover our total cost of production.

In summary, sir, I would like to say that we can see from the land use summary of Davis County that marginal land is being pulled from pasture to row crop to enable the farmer to make his cash flow work.

I believe the marketing or selling or servicing of Federal crop insurance can better be handled through the ASCS offices. These ASCS offices are in direct contact with the farmers on a daily basis.

Also, there is a strong need for a more uniform land classification and higher level of insurance, possibly considering a level of 85 to 90 percent with the Government premium of 30 to 35 percent instead of the 19.5 that is now in effect on the level 3. With these I believe you would see a dramatic increase of participation. By using Government funds now allocated for disaster relief, and using half of these funds, there shouldn't be any increase in Government spending.

Thank you, Senator, for your time and sincere interest in American agriculture. I would be happy to answer any questions you might have.

On our farm for 1984 if we took out Federal crop insurance, the insurance we would have against our projected expenses would still be approximately $39,000 short of meeting our total cost of production on a total wipe out situation.

Senator JEPSEN. Jerry, what is your honest opinion of disaster payments, given the situation in southern Iowa this year?

Mr. KINCART. You mean disaster payments of Federal Crop or through the emergency loan program?

Senator JEPSEN. Emergency loan program.

Mr. KINCART. Well, that is an interesting question because it is a mess.

Senator JEPSEN. That answers the question.

Mr. KINCART. It is a mess. A lot of it was on the books. It wasn't funded. That was taken care of. The administration seems to be making a very strong point for the fact that—they are going to make it strong, I believe, that Federal crop was available, we didn't take it out, we should suffer the consequences.

I think they are maybe going a little strong on it. I think you are aware of that. I know I have been in contact with Mike Neruda quite a bit about it. It is coming around. It is coming slow. We have lost or are going to lose, I believe, a considerable amount of farmers from this year because of the situation, especially in our area with the drought and losing of the Exchange bank and other small rural banks.

It seems to be an awful lot of paperwork with the emergency loan. I think a lot of papers are duplications in the process. It seems to be a slow process. The staff in some counties are adequate. The staff in some counties are inadequate. Mr. Pim, the State administrator in FmHA, has taken steps to eliminate that, but I think they waited until the problem was upon us strong and heavy and they tried to do it all at once and I think they have some things to straighten out yet. There are some inequities in the qualifications.

Senator JEPSEN. As representing an area that was literally fried and a total loss area—as I well recall when I asked the question one day, "How many people participated in the insurance program?" it was a very small percentage of people. Why do you think that the small percentage of participation in the Federal Crop Program oc-

curred in Davis County when Davis County has suffered more than just this year?

Mr. KINCART. 1955 and 1956 were serious disaster years in Davis County. We went along then to 1977. At that period there were some crops hit, some weren't. We were declared a disaster area at that time.

Our farm stayed at 90 bushels of corn that year and we had 8 bushels of beans. We were able to survive without it. We didn't have any heat or weather situation until this year. I just didn't feel the premiums were justified for the amount of insurance you got back.

Senator JEPSEN. Is that the way most of them felt?

Mr. KINCART. Yes, sir. I am an ASCS township committeeman in Davis County, and myself and a gentleman, when it was introduced into Davis County, sold Federal crop as it was administered through ASCS. We came to Des Moines to school for 2 days and went back to our own county and had a representative down for 2 days to help. We wrote that lady that was on the first panel. Betty, whatever her name was.

Senator JEPSEN. Betty Hallberg.

Mr. KINCART. She said Davis County wrote 135 contracts that year. That is my contention for ASCS being able to handle it. They are in direct contact with farmers on a daily basis. They have a direct mailing system set up where every farmer gets a newsletter. They are in for grain bin loans, what the CCC loan rates are, what the setaside programs may be.

The insurance man sees the farmer when the premium is due or he has a claim. In our county, Federal crop has not been actively worked by the independent man as far as going out and knocking on the door. If you are in the office checking on the premium and you ask about it they will tell you about it. You will say, "What is your recommendation?" "Whatever you think you got to spend this year, maybe go ahead."

This year there will be a dramatic increase in it, I believe, in the drought areas especially because some of the lending institutions are saying, they are not demanding it, but they are saying, "Here is your loan, let's see Federal crop on this side." "You sign one, you sign both."

You have a lady, Leslie Miller, testifying this afternoon from the bank. Whether she will back me up on that, I don't know. I have been hot watered before. I'm tempered to it.

Senator JEPSEN. You are going to have an increase this year. The old saying, if you are selling fire insurance on houses, it certainly picks up the business when one of the houses burns down in the block.

Mr. HECK. My statement wasn't very long, but it is inclusive, and one part is realistic yield, the year I did buy crop insurance—I had been solid seeded beans for several years because I was experiencing 8 to 10 bushels an acre increase—you paid the same premium and they cut you 8 bushels from the top level if you didn't cultivate, so that year just so I could collect the top yield I cultivated 60 to 70 acres, which hurt the yield on them but guaranteed me I would get that 8 bushels if I did have a loss. So you see some unrealistic figures on that stuff.

Mr. KINCART. Senator, there was a question mentioned a while ago by the gentleman here about dropping out the disaster programs as we know it today, and the remark was made if the farm disaster program

is totally done away with the others should follow suit. I believe this is right because the hurricane or whatever it might be—in the event of a large national emergency that is something else, but just a disaster, we have worked with. Compared with our drought they have insurance to cover them, but yet the Federal Government steps in within 24 to 72 hours and, frankly, it has taken us 4 months to try to educate, not necessarily our Iowa delegation, but our urban senators and congressmen.

You run into a stumbling block. They said, "Well, we had a $22 billion PIK program. There is no way you can be hurt." They come out in the papers with the situation of certain farms in eastern Iowa were getting $100,000 to $600,000 PIK entitlement. If it is, that's fine but if they do their background work on it they will see there are maybe five or six families involved in that operation, as ours is. We are incorported, myself, my family, my mother, my brother, and his wife that are farming that, so it is an unfair advantage to keep blowing this out of proportion and trying to stalemate the disaster help we are now needing.

Senator JEPSEN. Thank you. Is there anyone that has a closing statement or anything they would like to add before we recess for lunch?

Mr. HECK. One thing that I deleted from my prepared text on crop insurance is we don't think you should be able—I better change that to I think you should not be able to purchase crop insurance on land where they are not following soil conservation practices, because from my viewpoint, that is where you get most of the insurance from, high risk land, and it is land that is broken up that should be in pasture, so in effect it is kind of crowding out the guy that is farming like he should by higher premiums.

Senator JEPSEN. Karol King.

Mr. KING. I would like to say insurance is supposed to cover losses. Say a hardware store owner, he is broken into or he has a fire. His insurance covers the losses of his inventory.

The crop of the farmer is no different than that hardware the store owner has in the store. He expects his insurance to cover his losses, and the level of coverage where it is right now is not going to cover those losses. We need to increase it a little bit so it can cover our losses.

Senator JEPSEN. Jerry, do you have anything else?

Mr. KINCART. No, sir. Thank you.

Senator JEPSEN. Thank you.

I would now advise that we will recess until 1:45, at which time we will reconvene here, and the first panel we will have is Leslie Miller, Russell Booth, who is the county supervisor, Union County FmHA, and Roger Engelkes, agriculture chairman, Iowa Bankers Association; Jim Healy, president of Farmers Production Credit Association, then Jack Parsons, who is the former national chairman of Corn Growers. Now recess for 45 minutes.

[Noon recess.]

Senator JEPSEN. At this time I would invite Leslie Miller, the agriculture loan officer for the Davis County Savings Bank, to come forward. Russell Booth, county supervisor from Union County, Farmers Home. Roger Engelkes, agriculture chairman, Iowa Bankers Association. Jim Healy, president, Farmers Production Credit Association from Cedar Falls, IA. I'm familiar with that town.

Welcome to the hearing, thank you for coming. As I indicated earlier, any written testimony that you may have will be entered into the record. You may summarize it or proceed in any way you so desire. At this time I will start with and introduce Leslie Miller, agriculture loan officer from the Davis County Savings Bank.

Leslie, you certainly have been in the part of Iowa where there has been a lot of traumatic tragic action this year. I'm looking forward to your testimony. Welcome.

STATEMENT OF LESLIE S. MILLER, AGRICULTURAL LOAN OFFICER, DAVIS COUNTY SAVINGS BANK, BLOOMFIELD, IA

Ms. MILLER. Thank you. Senator, I want to say I appreciate the opportunity you have given me to present an agricultural lenders' viewpoint on Federal crop insurance and some of the changes I feel might be necessary in the program that would better serve my farm customers. As you know, I have prepared a written text that I would like to have in the record, but in the interest of time I will try to paraphrase sections of this text at this time.[1]

The year 1983 was certainly the year that proved to most farmers, as well as farm lenders, that Federal crop insurance could provide good risk management as far as production. The only problem is that adequate coverage cannot be obtained right now in Davis County at a fair price, and I believe in visiting with other ag lenders in Iowa this problem exists in counties other than Davis County; 1983 brought to the attention of many people not only this problem in Davis County and other counties, but other problems with Federal crop insurance.

Another big problem in Davis County was the fact that many of the farmers in Davis County were not well educated as to the different aspects of the program. There was a lack of public education of the farmers, and for this reason I feel the interest might best be served if once again Federal crop insurance was made available through ASCS offices. The ASCS offices have the staff with the expertise and ability to educate the public on the Government programs involving agriculture. They also have an abundance of history on the majority of farmland in each county, and since most of this information is necessary in working with Federal crop insurance I think it would expedite the paperwork somewhat if they would simply have the insurance and the information available in the same location.

Another program change I would like to see would be the inclusion of 80 or maybe even 85 percent level of coverage. My reasons for this are twofold. Right now, as I mentioned earlier, there is not a good established yield available under the land classification system, and since the majority of our farmers in Davis County do feed livestock, it is hard for them to prove their yields. Therefore, they must either be satisfied with this low yield classification level or try to do something other than their normal farming practices to establish, or prove their yields, to obtain better coverage.

If there was an 85-percent guarantee level available, that might get around this lower established yield level they use under the classifica-

---

[1] See p. 103 for the prepared statement of Ms. Miller.

tion system. I also feel like this higher level of insurance is important to beginning farmers especially. These are young people who cannot afford to have much risk in their farm operation. Because of that they need to have some kind of insurance that will protect them as much as it possibly can. I also would like to see expansion of Federal crop insurance in Davis County and other counties with terrain similar as ours into pasture and hay production insurance coverage. In Davis County less than 40 percent of our farmland base is in row crops, and because of this, under the present program we cannot insure any more than 40 percent of our productive acres in Davis County.

I don't feel like this is fair when Humboldt County, for example, can insure 92 percent of their farmland base, that is what their row crop acres are, 92 percent of their farmland acres, so there is an inequity that one county has so much protection and another county has less than 40 percent.

The need for hay and pasture protection insurance is even more apparent when we study the aggregate income of the Davis County farmers. Over 20 percent comes from our dairy, beef cattle and sheep enterprises, so because of this I would think that Davis County should qualify for hay production protection with programs similar to the North Dakota program for hay and forage seeding.

The cost of establishing a new seeding can be more than the cost of seeding beans or even approach the cost of putting in corn, so as you can see there is a tremendous amount of money involved and a lot of risk in establishing a new seeding.

In addition to the two North Dakota programs, I would like to see a pasture insurance coverage and protection program of sorts. Possibly the easiest way they could use this program or put this program into effect would be to base the program on the animal units per month on pasture ground. This is the pasture's ability to maintain livestock over a period of time. Obviously the higher number of animal units per month, the better the pasture is.

After determining the level of pasture, sign farmers up again at the 50, 60, 75 and if they have a higher level, that level also of coverage, and when the actual carrying capacity of the pasture falls below this, payments could be made to the farmers so they have money available for renting supplemental pasture from the neighbors or hay either locally or from outside areas so they could continue to carry their livestock.

Another program I foresee or programs I foresee the need of, especially with the livesetock producer we have in Davis County, is some kind of insurance coverage available as it pertains to livestock. What I mean would be a program where if you take, for example, a situation like we had last spring where many calves and lambs were lost in the wet weather and now this fall we are facing quite a bit of liquidation in our beef cattle herds because so many cows have been open due to the summer heat, if these farmers were able to purchase some kind of insurance protection that would make payments, there is a chance they could afford to purchase the hay to carry some of these open cows over rather than dumping them on a depressed market.

One of the changes I would like to see made would be a restructuring of the premium price structure. Rather than starting out at a moderate cost for the insurance—and then decreasing it, discounting, if you

will, the premium cost in the cases of good experience—I would rather see them start out at a low cost level, hopefully as low as they possibly could, and in the case of frequent indemnity, the case of a bad manager that wasn't doing the job he should, go ahead and increase the cost of coverage. In other words, make it more like your auto insurance. You start out with a low price and if you have many accidents they will increase the cost.

By starting out with this low cost they would have better participation and it would make beginning farmers better able to participate in Federal crop insurance because it would keep these costs down.

Again, the major point I want to make, I do believe, as many ag lenders do, that in theory Federal crop insurance has a potential to be an excellent risk management tool. The problem is now that the program needs to be changed from its present form so that it answers the needs more closely of the diverse agricultural enterprises we have in this country. I would ask that you give careful consideration to what some of these needs might be when you are looking for methods of improving and expanding the Federal Crop Insurance Program.

Thank you.

Senator JEPSEN. Would you have included pasture as a risk to be insured against prior to last year.

Ms. MILLER. Yes, I would.

Senator JEPSEN. Have you felt that way for sometime?

Ms. MILLER. Crop insurance has not been widely available in Davis County for a very long period of time. 1978 was the first time it was widely available in Davis County, and at that time the cattlemen were very upset there was no kind of protection available on pasture and hay ground. To my knowledge they have been asking people in Washington with the Federal Crop Insurance Corporation why this has not been allowed to happen before now, why they haven't come up with some type of program to protect them.

Senator JEPSEN. Russell Booth, county supevisor from Union County, Farmers Home Administration.

STATEMENT OF RUSSELL BOOTH, UNION COUNTY SUPERVISOR, FARMERS HOME ADMINISTRATION

Mr. BOOTH. My name is Russell Booth. I have been with Farmers Home Administration in Creston, IA, since June of 1964. The Creston office serves Union and Ringgold Counties located in south central Iowa.

The primary farming enterprises are corn, beans, beef cows, and hogs. Generally speaking, the farther south in the area the fewer crops and the more beef cows, as required by soil types and lay of the land. The Federal crop insurance has some very positive aspects as it applies to Farmers Home Administration borrowers. For example, a borrower in the northern part of the area has almost all crop land. We tried a hog program, but he lacks the necessary management ability with hogs, so we have gone strictly to cash crops of corn and beans. He had Federal crop insurance this year because I strongly suggested it should be carried as a risk management tool. The cash flow, as developed this spring, showed that with the Federal crop guarantee yield, his farming operation would at least break even.

36-721 O - 84 - 8

Should the year be such that yields were in excess of the guarantee, we would have less profit by the amount of the insurance premium, but we were removing the risk of losing money. This individual's risk bearing capacity was quite small, therefore, he carried Federal crop insurance. He did suffer loss from the drought. The exact amount is in the process of being determined, but from rough calculations I'm quite sure he will not be eligible for an FmHA emergency loan. In this case as in most, they do not need another loan, even a low interest rate loan. What they need is income. Credit it not a substitute for income.

Another example in Ringgold County: In the rougher part of the area, a farmer rents 800 acres, cash rent on the hay and pasture, crop share on 100 acres of corn and 60 acres of beans. The farm is owned by an insurance company, which would only go into the PIK Program 20 percent. He had and will collect from Federal crop on his share of the corn and beans. He will, however, be eligible for an FmHA emergency loan because of his hay and pasture loss.

By heavy culling of the cow herd and using hay carried over from previous years, he will probably not have to purchase hay. We hope. I don't know if it would be possible to insure hay or pasture or what kinds of administrative headaches it would create, but at least in my area it is something to consider.

In contacts with other lenders in the area, these two examples seem to be characteristic of those who carry Federal crop. It appears to be of more benefit to the cash grain farmer than the livestock farmers.

They, the other lenders, also like to use it as a risk management tool and would like to see greater participation. I asked a number of farmers, "Do you carry insurance on your cows?" "Yes." "Your machinery?" "Yes." "Buildings?" "Yes." "Health?" "Yes." "Crops?" "No." "Why not?" The primary reason given is that the yield guarantee is too low or the premium is to high for the coverage.

Another example, 23 acres of corn, ASCS established yield of 114 bushel to the acre. Federal crop insurance guarantee of 69 bushels plus 10 percent for 50-percent PIK participation and a final yield of 75.9 bushels guaranteed. The actual corn yield was 76 bushels. The total premium for Federal crop was $216. This producer suffered a loss of 114 normal bushels minus the 76 bushels he received for a 38-bushel yield per acre loss times the 23 acres is 874 bushels at $2.70 guarantee, or a $2,359.80 loss, or $102.60 an acre. He had a premium of $216 or $9.39 on a per acre basis.

Frankly, I have had to agree in a number of cases that Federal crop insurance would not be of an advantage to them in their particular situation.

Another actual example: A tenant on 240 acres, all of which is very rough except 30 acres of good bottom land. He has in the last 12 years never produced under 50 bushels of corn, even in the 2 years he put corn on the hills when a seeding died out. His Federal crop guarantee is 40 bushels an acre. ASCS established yield is 91. Even this year his corn made over 50 bushels, and it was on the bottom. Had it been on the hill land, he could have collected.

This particular farmer needs two yield guarantees, one for the top and one for the bottom. Administratively I can understand the problem of sorting out 30 acres from 240 and having two different yields, but with the participation of this particular farmer, it would be

necessary. Perhaps these are exceptions and not the rule, but there are quite a number of exceptions or the participation would be greater.

Another area of concern are the agents who sell Federal crop insurance. I thought the switch to agents would help increase the number of people with coverage. The agent, who is carrying their other insurance, is there and would have the opportunity for a sale when visiting with them.

In visiting with insurance agents, they seem to lack the enthusiasm for the program that I had expected. I won't say, but I get the feeling they don't understand the program, that they originally tried, but after only a few sales finally gave up the push. Perhaps what is needed is some simplicity in the program and an education program.

I personally don't know all about the program I should. When it was handled by the Government on a direct basis, the office was across the hall and all questions were directed there. Now I direct questions to the agent. Perhaps there is a procedure or an appeal system to correct inequities in yield guarantees. I don't know. The education program should include lenders, agents, and farmers. A number of farmers I have visited with knew it was available but never looked into it. They did say after this year they were going to check it out.

The lenders whom I am in contact with and I wish that Federal crop would substantially replace FmHA disaster loans. I say this because of three points. Victims of disaster need income, not another loan. Without the availability of other disaster assistance, more would decide on their own, and more lenders would make Federal crop insurance a requirement. FmHA disaster loans are not easily processed in a short period of time, even with additional personnel and the improvement in the FmHA system that have been implemented.

Since September 20, the Creston office has handed out 286 applications and has had 85 of those applications returned. I anticipate 400 applications before the closing date of March 9. It is impossible to deliver these loans with the speed desired by the applicants and the lenders.

In conclusion, I believe Federal crop insurance is the way to go. Lenders and farmers agree in case of a disaster they need income, and not another loan to repay, and farmers are not unfamiliar with insurance and its benefits. as they insure everything from their personal property to their health.

I hope the examples I have presented will be helpful in devising a program that will result in increased farmer participation. I believe this to be a consensus of the lenders' point of view in our area.

Thank you.

Senator JEPSEN. Roger Engelkes, agriculture chairman, Iowa Bankers Association. You may proceed.

STATEMENT OF ROGER D. ENGELKES, EXECUTIVE VICE PRESIDENT, GRUNDY NATIONAL BANK ON BEHALF OF IOWA BANKERS ASSOCIATION

Mr. ENGELKES. Thank you, Senator.[1] I want to preface my remarks a little bit by saying, I guess I really come to this hearing today speaking, I hope, on behalf of the Iowa Bankers Association, but also as a

[1] See p. 105 for the prepared statement of Mr. Engelkes.

banker in Grundy County, and also I am involved in a small farm operation and so I hope I have some kind of a background in this whole area that may be of use to you and your committee as you go about studying the problems as they are involved in the Federal Crop Program.

I also have a little different situation than the two previous speakers this afternoon in the fact that we were not hurt by the drought that occurred this last summer, and while I won't say our yields are not down some from what they normally are in a good year, we are certainly not looking at the types of problems that the two people sitting on my right certainly are looking at, and in trying to restructure debt and loans that cannot be repaid because of drought and not getting a crop, so from that standpoint, Senator, I guess I can't speak from a personal standpoint as to what I would do as a banker in that area if I had that problem, but let me hasten to add I have tried to visit with some of the other bankers in the State, and particularly bankers who are involved in areas that were hit by the drought.

One of the things that seems to come out as I visit with these people is that many of them have said,

> Well, I felt that the Federal Crop Insurance Program probably was a program that normally paid when we had a complete disaster. I'm now beginning to get a different feel for that in that I'm not so sure that even in a complete disaster the program as it currently exists is of much help.

That seems to be a comment that I keep getting back.

In addition, the feedback that I get is that there seem to be delays and some poor experiences with what is happening in the processing of the Federal crop insurance.

In response, Senator, to your question on how the program might be improved, I think perhaps we ought to review what I hear and what I feel are the primary objections to the program as it exists today.

First, one of the problems that appears to be is that the land classifications seem to be inadequate or misclassified, and it seems to me that more work needs to be done to be sure that all land is properly classified.

As a sidenote to this, and obviously everybody knows what the problem is, it is coming up with some constructive suggestions as to how to solve the problem, is probably where the problem lies. One of the things in our area and many areas of the State, soil surveys have been completed and I think there is a possibility of using the soil surveys, we have the CSR, the corn suitability ratings, and that is something that we use a great deal, particularly in trying to appraise the value of real estate, and I'm not sure maybe that isn't one way we can look at coming up with establishing some adequate classifications on this land.

Another alternative may be proven yields. I might add in our area we are primarily a crop operation, while we do have some limited hog feeding and less cattle feeding, many of the farmers in our area are principally crop farmers. That is not a problem, proven yields are not a problem with those who strictly are cash grain farmers. It does, however, become somewhat of a problem for those who are feeding livestock, and perhaps that grain is not or cannot be weighed so it is difficult to track them.

Second, in our area, and I think the feedback that I get from most of the people that I have visited with over the State seem to think that the yield levels are too low. I think some previous examples have been cited this afternoon that would bear out those same comments.

Third, I understand that different fields are many times put into one unit and then averaged. I guess I'm suggesting that perhaps we ought to look at this a little bit like hail insurance companies cover individual fields, and if you experience a loss in a particular field you are covered for that loss.

Fourth, there is some question as to whether the bail deletion credit is adequate. In our area of the State, and I think in a good share of the State of Iowa, our major loss potential is from hail, and in our area most farmers carry hail insurance; very few carry Federal crop insurance.

Fifth, and this is a feedback that I have gotten from other bankers in Iowa, not particularly in our area because we do not have much hay or pasture land, but the absence of hay and pasture ground being included in the Federal crop program.

Finally, the program seems to be confusing and cumbersome, and I think turns farmers off from the start because it is difficult to understand. I think sometimes we all want a very simple answer and we want a very simple explanation for any program we want to be involved in, and I obviously know that is folly and that is not possible. It seems to me that there needs to be some modifications and some improvements that could be made to make the program workable and understandable and something that could work.

In conclusion, I want to say that I think farmers are willing to pay for a program where they receive value. You have heard the term risk management a couple of times earlier. It is a term that I'm going to use also. It seems to me it could be a tool or a program that should be provided for risk management. Risk management tools in agriculture are important. Farmers are willing to pay a reasonable price for reasonable coverage.

Senator JEPSEN. Thank you. Now we move a little bit north and a little bit east from Grundy Center up into the Cedar Falls area.

STATEMENT OF JAMES J. HEALY, PRESIDENT, FARMERS PRODUCTION CREDIT ASSOCIATION, CEDAR FALLS, IA

Mr. HEALY. Jim Healy, president of the Production Credit Association, Cedar Falls. I'm here representing the Production Credit Associations of Iowa and also the PCA of Cedar Falls which covers a six-county area.

In concept, the idea of making available a federally subsidized risk protection program for the Nation's food producers is sound. The farmer as producer of the Nation's primary source of new wealth is subject to an abnormally high number of unavoidable risks such as hail, wind, fire, disease, drought, floods, et cetera. In addition to these natural perils, he has also been the victim of national and worldwide political strategies. When one considers the combination of natural and manmade perils that the producers of our critically important food supply are subjected to, it does not seem at all unreasonable to provide that industry with the degree of protection against these perils

over which they have no control. In order to support a subsidized premium program, one must believe, as I do, that society as a whole is a recipient of a sound agricultural industry.

The benefits of a sound risk protection policy that would cover virtually all natural perils are many. We are primarily concerned with providing down side risk protection for the crop producer. This protection must be in the form of both volume of production and price received. In other words, the critical factor that needs protecting from a cash flow standpoint is the gross income per acre.

Livestock producers are concerned with having an adequate feed supply for their livestock program. An effective insurance program would insure they will either have enough grain produced or the income with which to purchase feed supply that they normally would have expected to produce.

As lenders, we are always encouraging our customers to utilize good marketing practices to help stabilize their cash flows and insure to the degree possible that their products will be marketed at a profitable level. One of the major deterrents to a good marketing program is the uncertainty of the volume of commodity that will be available for sale at a future date. An effective crop insurance program needs to insure that the equivalent of an average crop in the form of either commodity or cash will be able to deliver as contracted.

In order to determine how well the current program is working one needs to observe what is happening in the marketplace. A program that provides adequate protection to meet the needs of the producer and maintain a consistent and fair price/benefit ratio should be widely accepted in the marketplace, in Iowa. This has not been the case with Federal crop insurance. The product has not been uniformally accepted in terms of either geographic distribution or total penetration. This leads us to believe that there are inequities in the program in terms of price benefit ratio as well as some problems in the area of coverage offered.

One of the major problems is the base yields used in determining eligible coverage. These yields seem to be understated in the vast majority of cases. There are a couple of reasons for this. These base yields were determined over a number of years, I believe 10, where average production has been increasing due to improved production methods and technological advances. Therefore, the yields are not reflective of 1983, 1984 production capabilities. In addition, these average yields, in many cases include at least one disaster production year. The very conditions that we are trying to insure against have been included in the base yield calculation. The current insurance program then allows the farmer to insure up to 75 percent of that very conservative base yield.

The producer does have the opportunity to prove his yields but the reality is that the vast majority have not established a practice of doing so in the past and find themselves in a position of having to accept the designated base yield for their unit. As more proven yields are established, the program would gain some credibility.

An example that might be helpful. I know of one Grundy County farm for which the producer expects to average 150 bushels of corn per acre. This is a good farm that currently rents for $200 per acre. The FCIC base yield is 108 bushels per acre. If this producer buys Federal

crop, the maximum he can insure is 75 percent, or 81 bushels per acre. His 81 bushels represents not 75 percent but 54 percent of his expected yield in reality. If he insures the corn for $2.50 per bushel and experiences anything over 81 bushels per acre, he will receive no insurance benefits and may have experienced the biggest crop disaster in his lifetime in that geographic area. A lender is not likely to view Federal crop insurance as much of an asset when determining this individual's repayment capacity.

It would seem fairly obvious when a customer will not buy an insurance package that is designed to have a 100 percent loss ratio, something is wrong. The producer obviously does not believe that the program is actuarially sound. It isn't that he doesn't want to buy crop insurance coverage or that his lender wouldn't encourage him to buy this type of risk protection. The level of protection that is available is too low in his eyes to justify the outlay of the premium.

In some areas the resistance revolves around the idea the policy provides no protection against flood, which for some farm units is their major threat. It also provides no protection if the crop does not get planted due to extraordinarily wet conditions. In no way should an insurance package insure against poor management. However, if it is going to be accepted by the producer, it will need not to allow for a true reflection of the average crop when all reasonable attempts have been made to produce that normal crop.

I realize this is an extremely difficult program to administer. Each individual farm is unique and each producer has different production capabilities. This is complicated by the fact that different geographic areas are exposed to differing degrees of risk by the many perils which the policy attempts to cover. Designing a program that takes all the necessary variables into account is an actuary's nightmare. Administering the program from an agent's standpoint is also very difficult and time-consuming when the policies are virtually individualized to the producer rather than being able to use a set of standards for each township or county as the hail insurance industry does. The fact still remains, however, that if the program is to be effective in accomplishing its goal to provide protection to the producer, the elements I have discussed need to be appropriately reflected in the program and administered with the minimum amount of redtape.

As a lender, I am supportive of some form of federally subsidized risk management package for the Nation's agricultural producers. If the Federal Crop Insurance Program can be modified to provide this protection, then I'm supportive of it. If it cannot be, then we will need to look into alternative methods of providing that risk protection.

Thank you.

Senator JEPSEN. Thank you. Can you require crop insurance as a condition for receiving a loan now?

Ms. MILLER. I don't believe as a banker that we should force our customers to do anything that is not an economically sound decision. In many cases the level of coverage that is provided is so low that it is not really an economically sound decision for them to have that.

In most normal years, barring a disaster like we had in 1983 and like we had way back in the 1930's—there is a 50-year time lag for us to have such disastrously low yields. We have to try to base our decisions on an economically sound level.

We can suggest in cases of very young operators that have just started farming, we can suggest very strongly that they look into Federal crop insurance and tell them we would like them to have that to limit the risk in their operation, but I don't feel it is our position to tell them what they have to do.

Senator JEPSEN. What I heard you answer me, or what I heard you say was this: You couldn't recommend it because it wasn't good enough. Let me ask the question a different way. Let's say you felt that the crop insurance was adequate or was good enough to cover the risks. Could you require it? Just generally, can you require? Is there anything in the statute in Iowa or federally that says you can't make this as a requirement to issue a loan?

Ms. MILLER. We could probably make it a provision of our loan. I guess if the protection was adequate I think that we would try to talk the customer into using that and convince him of its soundness rather than force him.

Senator JEPSEN. Could you do that, Roger, at the bank?

Mr. ENGELKES. You could make that as one of your loan covenants or provisions. One of the things we have talked in terms of a risk management tool and we encourage in our area, we encourage people to take hail insurance. Those people who are more marginal that cannot afford the risk we encourage very strongly, but I see no reason why you cannot make that as a provision like hail insurance or Federal crop insurance.

Senator JEPSEN. Is Farmers Home Administration allowed to require it?

Mr. BOOTH. We cannot require it at the present time.

Senator JEPSEN. Is that by statute or by rule?

Mr. BOOTH. That is statute.

Senator JEPSEN. No matter what the product is, at the present time you could not require it but the bank could. How about production credit?

Mr. HEALY. We would be the same as the banks. We probably could. If you made a home loan, I don't think you can get a home loan without signing the thing in the mortgage that says you must insure it, so I would think that the same rules would apply to chattel property.

Ms. MILLER. What I would like to parallel it to is the risk management tool of forward pricing through the board of trade or local elevator and livestock dealer. We don't force our customers to do forward pricing, that is unheard of. We suggest it in cases where we think the risk is such that we think the prices will go down. We look at Federal crop insurance the same way. It should be handled like any other risk management tool.

Senator JEPSEN. We talk about responsibility. Whose responsibility is it to educate or recommend? You are all professionals and you loan money. People come to you to make a loan. If their given situation is such that they can't afford to lose even half a crop or any percentage of a crop things have to work out just exactly right. The two problems that farmers have, one is weather and the other seems to be Government, and they don't have much control over either one. However, as a professional, it seems that at times you have some responsibility to do more than just recommend crop insurance. In a given situation, where a person is just not going to make it if things don't go exactly right, and if you can provide for that risk, shouldn't you require it? If it isn't your responsibility, whose is it?

Ms. MILLER. It is the lender's responsibility to try and guide his customers somewhat, help them to make sound economic decisions, but I would again like to use Davis County as an example.

The most recent drought year was 1977. SRS statistics reports a 50-bushel average yield on the county. If you look at level—excuse me, class 3 and level 3 coverage on Davis County land, you are looking at about a 60 bushel guarantee yield for Federal crop insurance, and this is probably what the average would be.

Going into 1977 we had zero, virtually no subsoil moisture whatsoever. People were very much afraid of the dry conditions at that time, yet we raised 50 bushels of corn. Going into 1983 we had abundance of subsoil moisture and so much we were almost late getting our crops in.

From that standpoint to equate the 2 years you look at 1977 and say, "My God, I raised 50 bushels of corn in 1977, why put out this money when it will only guarantee me a 60-bushel return when we have ample subsoil moisture? I should be OK." Should and reality didn't work out, unfortunately.

Senator JEPSEN. I won't belabor this, but I was in financial planning for many years, as you know. In a certain situation where a person has to roll the dice and hope he doesn't shoot craps—I see a few understanding faces—can't afford to and shouldn't be rolling the dice, then there is a question here of what a prudent person who is giving advice would do and should do.

I know the product needs to be improved, but let's assume we can get this product improved. Either in the private sector, public sector, or a combination of both, if family farmers are going to stay in business we are going to have to become better money managers and we are going to have to take into consideration this thing called risk management.

There is a difference between a young person coming in to borrow money, and someone who owns 1,000 or 2,000 acres who wants a little money to put in the crops, you aren't worried about the owner, but you are worried about the person who is hanging by his thumbs.

The Farm Home Mortgage representative says they are prohibited from requiring Federal crop insurance. However, the banks, if they decided, could, and so could productive credit. Most of you have said that people don't know about it and that they don't understand it. You have said that Federal crop insurance is available and it is not that bad a deal if people understand it. Some of you have said it is not that good a deal. Universally it has been said they are not telling the story very well and not enough people know about it.

I made a list of who might tell that story. You have bankers, ASCS, individual agents, farm organizations themselves that are service organizations, whether it be Farm Bureau, NFO, Government. Now I have a question. Whose responsibility is it? I'm not sure it isn't everyone's responsibility. Where does it start? Who should be doing it? Who is the prime mover in getting the story told and up in front?

Mr. HEALY. I could respond to that, I think. Actually, my personal belief is the farmer as a businessman is ultimately responsible for the management of his business, so the education, I guess what you are asking is who, or I think what you are asking is who should feel the responsibility for education.

In other words, Leslie was answering the question about can you require it, I guess, the philosophy we don't really require it. We can base our loan approval on the risk that is involved in the loan. We might make several suggestions as to how they could reduce risk, but the ultimate decision as to whether they are going to buy Federal crop insurance rests in the farmer himself. In other words, he may say, "I will go to another lender."

Senator JEPSEN. May I stop you there? There could be a situation where a person would insure the crops and they would ask for an operational loan from you, but if and in the exact same set of circumstances the person wanted the same loan but he said, "I'm not going to insure the crops." Is there any time you would loan the one that said he would insure, but not the one that wouldn't?

Mr. HEALY. Sure.

Senator JEPSEN. You are saying that is up to him or her.

Mr. HEALY. We are setting the standards for the loan. In other words, to meet our risk protection criteria insurance is one thing that is necessary, so the customer has the option of meeting the criteria of that lender or seeking out the lender that does not require that, but the ultimate decision on how much protection he wants to carry rests with the producer.

Senator JEPSEN. It is just a nice way of saying you have to have insurance?

Mr. HEALY. That's right. But the ultimate—in some cases we do require it as a condition of the loan, and we talk risk management all the time and, of course, we are here talking Federal crop insurance and that is one method, and forward pricing and all those others are others that all lenders are talking risk management every day.

Senator JEPSEN. All insurance, I think that all the agents and people in the insurance business would agree with me, has to be sold. For some reason it is human nature that we fight our own salvage. Anything with character meets with resistance. Insurance has character and takes out the risk of life or health or fire or crop loss.

Mr. HEALY. If it was a program, if the risk protection was substantiated by the actual yield production in the past, in other words, if they felt they were getting the coverage that they were entitled to, I think they would buy it. I don't think there is any question about that.

Russ pointed out they buy insurance on everything else they own, on health and life, why wouldn't they buy it on crops? A program as perceived by the customer, and maybe that is lack of education or maybe it is fact, but that is where the problem really lies. They would want the insurance and buy it if they thought the price to benefit ratio was correct.

Senator JEPSEN. Do you feel the important first step in improving the Federal Crop Insurance Program is to increase the amount of coverage? Does everyone believe that?

Mr. ENGELKES. I believe, Senator, as I said in one of my closing remarks, all farmers, as any businessman, are willing to pay a fair price for a fair product. Value received for value paid.

Senator JEPSEN. They are not going to walk in and do it, are they? Probably not.

Ms. MILLER. I think, Senator Jepsen, when you were referring earlier to whether we do, again, getting back to whether we do require

Federal crop insurance, you are referring to one situation where it sounds like there was not a lot of margin in the particular example of the operation you were referring to, maybe a very risky situation, and I think in that situation not only bankers, PCA people, FHA people all feel a burden of care is involved there, certain things we feel we need to instruct the farmer on so he may survive in his farming operation. I think in those cases, yes, there is education by the ag lender on crop insurance as well as management, risk management, in terms of forward pricing and other sorts of things they can refer to. I think there is indeed a burden of care there that is exercised even now.

Senator JEPSEN. Sometimes you might even refer the farmer to Home Mortgage?

Mr. HEALY. In our geographic area, Senator, a good example would be the crop hail insurance industry. It is not a subsidized premium, it reflects true losses, yet it is very easily sold and extremely high penetration. The people feel, I don't know if it is for historic reasons or whatever, people feel that they are getting the value that they are paying for. It is worth the money for the protection they are receiving, but the same people are rejecting Federal crop, so I think the customer is talking to us in that regard.

Senator JEPSEN. You bet. I thank the panel very much. Is there anything anyone has that they would like to say in closing?

Very, very good. I appreciate the testimony. It is obvious there has been a lot of preparation and thought given to it.

Thank you, very much.

We have Richard E. Connolly and Lawrence Myers, both farmers.

Richard Connolly, welcome to the panel. Where are you from, Richard?

STATEMENT OF RICHARD E. CONNOLLY, MADRID, IA

Mr. CONNOLLY. Madrid, IA, is my mailing address. I would like to thank you for having us here to begin with. I have cut my own resume fairly short knowing from 2 or 3 years ago that many things would be covered by many people before I would show up on the panel, therefore, I have made it very brief from the standpoint of what I think must be done to make it work, and I will read my prepared statement. If you would like any other discussion, I would be glad to do so.

After much thought and visiting with many farm friends as to why they did not and why they will not participate in the FCIC, the conclusions I have arrived at are as follows:

The first and most important is the unfairness of the classification of farms. There seems to be no rhyme nor reason as to how these classifications were arrived at. As I understand it, these classifications were set in 1935 in St. Paul, MN, and with a few exceptions there have been no changes made since that time.

Second, the premiums charged per acre with these classifications will cost an area 1 participant approximately double that of an area approximately double that of an area 7 for half the coverage.

I suggest the remedies of these problems as follows:

By using the index figures as set for all farms in the country by the ASC committees and using a percent of that figure, possibly 85 or 90 percent, will give you your yield for insurance purposes. This will do away with the classification system.

I also suggest the abolishing of the provable yield test, as it seems to create an impossible situation for the farmers that use their crops for feed as opposed to those who grain farm.

The Federal Crop Insurance Program should be handled through our local ASC offices. Adequate help is available and the records are accessible. In case of loss an adjuster from the office can be sent to the farm, the adjustments made, and checks paid from the local ASC office.

There are points, I'm sure, that should be discussed in regard to this program now or during the open session of this meeting; such as, Should all farms of different areas or zones under the same operator have to be included in the same program?

These corrections must be made if Federal crop insurance is going to be of use to the farmer. If they are made all farmers should be obligated to insure themselves or they would become ineligible to participate in any future Government programs.

Should any questions be asked, I will be glad to answer them to the best of my ability.

Senator JEPSEN. I thank you.

Lawrence Myers, where are you from, sir?

STATEMENT OF LAWRENCE E. MYERS, DALLAS CENTER, IA

Mr. MYERS. Senator Jepsen, I thank you for the privilege and opportunity to testify here today. My name is Lawrence Myers and I'm a farmer from Dallas Center, IA.

I farm with my brother and two sons on a cash grain operation consisting of corn and soybeans. I have been farming for 35 years. Most of the land lies in Dallas County, but we also farm some in Polk County, as we live close to the county line.

The oil type is all Clarion-Webster and we treat all the land the same; such as tillage, fertilizing, planting, and harvesting. On a normal year or a 5-year average I would say our yields do not vary more than 10 bushels per acre on corn or 3 to 5 bushels on beans between farms. With this brief background I would now like to comment on some of our gripes and concerns having to do with Federal crop insurance.

We have carried Federal crop insurance off and on for the last 12 to 15 years. We have never filed a claim or collected a penny in compensation in any of those years from Federal crop insurance. However, we have collected private hail insurance payments 9 years out of the last 12 years. Thanks to the good Lord and some luck on the side, we have always been able to come up with better yields than Federal crop insurance guaranteed. My point is, Federal crop insurance yields are too low.

In 1980. a drought year in central Iowa, we paid $14,960 in premiums to the Federal Crop Insurance. Some of that land only had a level 2 rating, which is around a 50-bushel yield guarantee, yet it still yielded better than 85 bushels. It has an ASCS index of 112 bushels. The bulk of our land has a level 6 rating which guarantees 89 bushels. The level 2 farm yielded within 5 bushels of the level 6 in a drought. We have tried several times to appeal but until now, hell wouldn't change it. I think Federal Crop Insurance should update their 30-year-old ac-

tuarial tables and use a percentage of ASCS yield index bases for their yield guarantee. For example, 75 percent of yield. This would be much fairer. I believe it would also create a greater participation by farmers.

We were so disgusted after 1980 we dropped it entirely. In 1982 we went back to Federal crop insurance and then we went PIK in 1983. In 1984 we hope to prove our yields and go back to Federal crop.

I do not want you to think, sir, I'm bad mouthing Federal crop insurance. I'm a strong believer in it and intend to carry it because we personally cannot afford not to in these tough economic times. However, surely they could incorporate the ASCS yield index into the guarantees. As I have said before, this would make it much fairer for all farmers and, therefore, get greater participation. I don't carry it to collect payment in a normal year, but I surely need it in a disaster year.

Thank you, Senator.

Senator JEPSEN. I had no difficulty understanding what you said. Well done. We are just about finished. We have covered all these things as you both indicated. I think there is a pattern starting to come through very clearly when the bankers and farmers and people from all walks of life in agribusiness agree that we should provide for improving the program by increasing the yield coverage and a more accurate method of measuring it.

Among other things we are starting to get some threads that are consistent. I don't have any questions specifically at this time. Do you have anything that you would like to add, either one of you?

Mr. CONNOLLY. Senator, I would like to add, the question was asked earlier in the morning or earlier in the afternoon, would they be willing to have Federal programs which have not been funded yet dropped now.

I don't think at the present time you can afford to drop them until after the inconsistencies of the classifications have been settled in this, because there is no way in my area of Dallas County—we have run from what they call 1 to 7's within a quarter of a mile. It is almost a physical impossibility to have this spread in evaluations of the ground, therefore, to try to drop this out now with these inequities, we would be back where we are presently with no participation in the program.

Senator JEPSEN. I thank you. Is Merritt Sprague still here? Merritt, now that we have had repeatedly this recommendation about improvement in yield coverage, would you like to take a second and comment on that?

Mr. SPRAGUE. I would be delighted to do so, sir.

We feel that the move to individual production history, the move to a proven record system is the soundest basis across this country for the kind of yield guarantees that truly are appropriate. I find it very difficult to defend our actuarial materials, our actuarial maps and the kind of process that we have used in the past upon which the yield guarantees under the area coverage plans are based. It would take a huge amount of work to revise them to the extent that would be appropriate and would be acceptable by producers.

The other approach is far simpler and results in the kind of equity and equality of offers that I think we must have.

Senator JEPSEN. What is the other approach? Somebody said that we ought to use maybe the ASCS.

Mr. SPRAGUE. Let me discuss the ASCS program yield as it is generally referred to. In some counties this kind of system would probably work because county committees through the community committeeman system have established the kind of spread of yields across the county that truly and rather accurately reflect the capabilities of the individual farms, but we have many counties in the United States and probably even some in Iowa where county committees have tended to bunch all producers into the middle where there is very little spread in yields, program yields between the highest and the lowest farms in the county where that spread does not fairly reflect individual productive capabilities.

This is particularly true in areas where production is not quite as concentrated as it is in Iowa. The fringe producing areas for corn, for instance. In some States the situation is far better than it is in others. I think in Iowa, at least in some counties such a system could work, but nationwide it is an approach that is inappropriate at this time for two or three reasons.

One, political considerations have been involved in some of the yields that have been set. Two, years in which there were substantial losses have been dropped in some cases or the yield for that particular year was modified and thus does not truly reflect a 10-year or 15-year or 8-year history, and as a result does not have the soundness from an actuarial perspective that an insurance program needs. In some areas it would work, and in other areas it would probably result in at least as inequitable situation as we have with the area coverage plans.

Senator JEPSEN. What about coverage for pasture?

Mr. SPRAGUE. We do have a pilot program for hay crops at this time. There are some particularly tough problems in insuring a crop like hay. It is harvested three, four, five times a year. The production in many cases is consumed upon the farm on which it is raised.

We have a pilot operation in operation in about 25 counties in 1984 on hay crops. In all truthfulness they have been selected because hay is a cash crop in those counties. It is either sold as hay or for alfalfa processing plants or something of that nature. In those cases we have the kind of data that is necessary to build an appropriate program.

Over the long term it appears that we are going to have to find a way to establish an actual production history basis for yield guarantees for forage crops. That is not simple. We are evaluating several possible alternatives today which would allow us to insure not only hay but pasture crops in this country.

One of those possibilities involves fencing off a tenth of an acre for instance, a sample area representative of the producing area of that forage crop for that producer and physically measuring or evaluating or appraising that production for the year involved. The difficulty is establishing the kind of base, the kind of yield guarantee that is appropriate. It is also difficult to evaluate the risks that are involved.

Our premium rates do reflect risk to the extent possible. In low-risk areas they need to be low and they are. In some areas they are 2 per-

cent and in other areas of this country we have 40 percent rates, and in some of those areas producers take crop insurance because it is still a good buy.

Senator JEPSEN. The individual yield coverage program I think you indicated in your opening remarks was something that you are pursuing.

Mr. SPRAGUE. We are aggressively moving to implement that in as many areas and crops as possible. I think that is where the future for this program lies, and I think when people fully understand that concept, when county ASCS offices have acquired the kind of yield history that is appropriate and needed, we will have the basis for the kind of program that people really are satisfied with. It is optional, an election, today available in every widely grown crop program and being used by an increasing number of people and it is a vastly improved product.

Senator JEPSEN. I appreciate your coming back. Since you came all the way from Washington we wanted to take advantage of you being here to go over some of these things that have been brought up since we first started this morning.

Who do you think is responsible for educating and telling people about this?

Mr. SPRAGUE. I think the responsibility has to be shared by all, Senator. I know I personally have spent 50 percent of my time in the last year trying to spread the word to people across this country. I can reach only a limited number of people. My staff can reach only a limited number of people. We spent a significant amount of money for advertising materials and a lot of it got thrown away and a lot of it made no difference when it came to sales. That effort was not very successful when you relate it to the sales that came from it.

We are working to a significant degree with the extension service in this country who play a vital role on the education of producers in this country. We have scheduled on the 13th and 14th of December in Washington a meeting with almost all the State extension directors, at which time we will spend a day and a half discussing the Federal Crop Insurance Program as it is today with its improvements and changes.

I hope and expect that meeting to lead to the eventual training of every county agent in the United States as to today's Crop Insurance Program. I know for a fact that we are dead in counties where an extension agent badmouths crop insurance, where he is critical or negative of the program.

Those people have a great deal of influence upon the producers in their county, but lenders and farm managers are just as important, and with the delivery system we have today agents have got to play a major role in informing producers of what is available.

Senator JEPSEN. I remember that one of the panel members earlier this morning said that he had sold insurance but didn't buy it himself. That is kind of a different situation, that is like selling Plymouths when you drive a Ford, or when you ride a horse.

I still get back to the responsibility of this. Who is the prime mover? You said you are going to have meetings with the extension

agents. How about the bank people and the ASCS people that are established and are in contact with these folks?

Mr. SPRAGUE. Let me continue to discuss that issue. I personally have appeared before the American Bankers Association just recently. I'm making an effort to attend, if possible, at least 10 Midwest banking meetings within the next 3 months in the period from now through March. I just discussed with the Iowa representative that was here the possibility of my appearing on the program in March in Ames before the Iowa Bankers Ag Credit Conference. I intend to be there if they make me welcome. I also intend to be present in Illinois and Missouri and Minnesota and Nebraska and other areas of the United States where we have a great market potential that is not realized.

What we can do today relates primarily in spring sales for corn and soybeans in this country. Corn, soybeans and wheat make up the largest block of potential business that exists, and our success with these three crops will determine the future of this program. It is nice to insurance the other 31 crops we insure, but they are the lace on the bottom of the dress. They are the fringe, if you wish. They do not represent the kinds of economic importance to the Nation that those three crops do in the Midwest.

Senator JEPSEN. It sounds like last year's weather and drought would have sold a lot of insurance if you have a product that people felt was fair and so on.

Do you have a crash program going to bring a package out that is going to take into consideration upgrading the yields?

Mr. SPRAGUE. We have made a significant number of changes, Senator, and I think we have the product—I really believe that—that will sell in 1984.

SenatorJEPSEN. Who knows about it? When are you going to let us in on it?

Mr. SPRAGUE. I'm hoping you will help us tell farmers across this Nation and the bankers.

Senator JEPSEN. Do you have a brochure being made up on it? What are you doing to get this out?

Mr. SPRAGUE. We do have some advertising efforts which are under way which will appear in major publications in the January, February period primarily just ahead of the major sales season and a campaign which will involve a rather significant amount of radio advertising. We do have a direct mail campaign plan which will be targeted to producers of specific crops this year rather than the kind of list that apparently the GAO tried to use. We have plans to get this information in the hands of people, but information in the hands of people and understanding are two different things.

Senator JEPSEN. It is a challenge, of course, to educate, and to sell anything is to be able to explain it in a way that people can understand it.

Mr. SPRAGUE. They are very important to us, sir.

Senator JEPSEN. It seems you could reach an awful lot of people.

Mr. LILLIS. My name is John Lillis with Lillis Insurance Agency of Williamsburg, IA.

Senator JEPSEN. Maybe you should come up to the microphone so everybody can share in what you are saying.

STATEMENT OF JOHN LILLIS, LILLIS INSURANCE AGENCY, WILLIAMSBURG, IA

Mr. LILLIS. My name is John Lillis of Lillis Insurance Agency. I would like to ask Mr. Sprague to comment on the mechanical process of the IYC program. We have heard testimony that the IYC program is the coming thing, which I agree with. However, in my experiences from the agency standpoint we have had some problems in implementing this IYC program in the event that we want to raise their guarantee to the 75-percent level, and working out the figures that we have had to work with it doesn't work out that way. In other words, first of all, I know actuarially you are trying to make it a sound program.

I have here one IYC certification form that has 5 years of records on it certified by the ASCS office. The other 5 years were the county average figures used, the previous 5 years. These figures would give this man very simply a 122 bushel average for the past 5 years. If you would take the 75 percent of 122 bushels it would equal 99 bushels. Very simply, this is what we felt that we were selling.

It doesn't work out that way. There are many more figures that go into this. First of all, this man also had to contend with the county average yield compared to what his average yields is. I realize we only have 5 years of actual figures. We do not have the fifth year SRS figures from the county ASCS office.

Mr. SPRAGUE. We have tinkered with several different formulas in the past as to how to approach this situation. What we are doing is taking the actual yields for the period of time it was available and comparing it against the SRS county average for the same period of time and establishing an index which is used to calculate production for a 10-year base that records do not exist.

If a producer is 1.2 times the county average for his period of time in which he has actual records, we will adjust up the SRS county average 1.2 times for the unproven years, is what the net effect of this is. It does allow the better producer to have records or a data put together which reflects his capability in relation to the rest of the county.

We have moved to implement a rather significant number of small changes in the IYC program recently. We have moved to allow for an agent to represent the producer when the producer is willing to have that agent represent him. He signs a release form, an authorization form. We have moved to allow our own field actuarial office to serve as an appeal board when a producer or agent or company is dissatisfied with an IYC yield determination made by a county ASCS office. We have moved to allow our field actuarial office to further divide yield determinations made by ASCS as to match the number of permissible insurance units under our contracts and our guidelines.

We have taken a number of steps in addition to these to try to facilitate the implementation of this program, but key to it all is the increased training effort that we have put together with ASCS on this program. We intend to train every county CED and assistant in ASCS and we intend to invite the local insurance agents to attend this training in hopes they better understand the system, and in the

hope they build a rapport and relationship with people that are also involved in the program.

We have had many problems to overcome with IYC. The current formula fairly reflects the yield capabilities of individual farmers. It lacks in one respect, and that is that it does not fully recognize the changes in yield trends, and we have not quite yet figured out how to do that in an appropriate fashion.

Mr. LILLIS. It still is compared to the county though, is that correct?

Mr. SPRAGUE. For the years in which he fails to have his own production history, yes.

Senator JEPSEN. Next question? Is there another one?

STATEMENT OF AL DUDDING, KOSSUTH COUNTY, IA

Mr. DUDDING. I'm Al Dudding from Kossuth County and I had an experience with IYC. We have one producer with 150 units that we have proven the yield on. We ran into some errors which were not the girl's fault. The CED's and their assistants go to the meetings and bring the books back and say, "Here, this is yours." What the hell does she know about it? She has done work on it, it is a 5-year folder. She finds out the man has four or five units under one farm number so she makes it all one farm number. It is not acceptable.

Mr. SPRAGUE. Did you understand our new procedure for appeals? The field actuarial office of the Federal Crop Insurance Corporation is now authorized to further decide yield determinations made by those ASCS offices so these permissible insurance units can be matched up.

Mr. DUDDING. I think we need more communication between the farmer and the girl who is going to do the work. He can explain it to her and he brings his records in, she takes it back. He gives it to the receptionist and she takes it back to the girl. That is why I recommended that the girls that do the work be invited to the meetings.

Mr. SPRAGUE. The person who is going to be making the yield determination is the one we expect to appear at the training sessions. If the problem is the counter clerk receiving the information at the counter and giving it to someone else in the office, I'm not sure we covered all of that.

In 1984, beginning very shortly, county ASCS offices are going to be expected to date and time stamp IYC yield determination requests when they come in the door. They are to examine them at the counter, make a quick determination as to whether or not there appears to be sufficient evidence to make a yield determination. If there is not sufficient evidence or it does not appear to be sufficient documentation, they are instructed or going to be instructed to turn it down at that point, send the producer or his agent after more information, not keep it.

If there appears to be sufficient evidence, they are only going to have 5 working days before they have to render a determination. They either make a yield determination or they deny it because of lack of evidence or because they ran out of time.

We are going to get a handle on the amount of time it takes to make yield determinations in ASCS offices in 1984.

Mr. DUDDING. I imagine we have about 100 of them to turn in right now but they don't have the 1982 SRS yield yet. They won't be able to work on that until the first of the year.

Mr. SPRAGUE. 1982's are available. 1983——

Mr. DUDDING. The 1982's should be available, but none of the ASCS offices have them that I know of.

Mr. SPRAGUE. I will check that out.

STATEMENT OF JOHN BRUCE, MORNINGSIDE, IA

Mr. BRUCE. I'm John Bruce from Morningside, IA. I'm a farmer. I think we should start with the ASCS. Everyone has already agreed continuously we need to get the rates up, and that is a good place to start. This year is a drought year. We are in a drought area and our yields are going to leave much to be desired this year. It is going to prove we provided a poor crop, so we are a year behind.

Maybe we ought to get rid of the word Federal and go with multiperil or all risk. Maybe that is what is turning people off. You can comment as you see fit, sir.

Mr. SPRAGUE. Let me make one comment. The term all risk has not appeared in any of our advertising material for over a year. It will not appear in future material prepared by the Corporation or authorized by the Corporation. Some of our lines of insurance are specific peril, one peril. None of them are truly all risk. That was a generic name that was adopted sometime ago that has not really stood the test of time and scrutiny, so the name all risk is disappearing. It has disappeared in many cases, but we haven't thrown away all the material that bears it yet.

Senator JEPSEN. Is there a legal reason for that? What is the reason? Would most all risk be better?

Mr. SPRAGUE. Most all risk would be more appropriate. Multiperil is more attractive, more accurate phraseology.

Senator JEPSEN. Yes, sir.

STATEMENT OF DEL JOHNSON, WARREN COUNTY, IA

Mr. JOHNSON. Del Johnson from Warren County. I have sat here and listened to this all day and learned quite a little bit, and it seems like people have kind of come to a conclusion on what they want on the farmer end of it.

It amazes me to think we have a spaceship in space with seven or eight people going to the Moon, but the heads of our Government sit here and tell us it is nearly impossible to have a Federal crop system that is workable for us. It doesn't make sense to me. It appears that if anything is simple to do, like these yields we have been talking about, the Government can't handle it. It has to be very difficult or we can't get by with it.

Federal Crop is scared to death that we, as farmers, might make a dollar on insurance and that is what we are in business for.

On the yields it is a good idea to take the Government ASC established yield, but I would like to add one more thing. Any disaster designated county ought to be eliminated that year. I think the yield ought

to be taken off that year on the average for a disaster designated county.

Mr. SPRAGUE. Senator Jepsen, the only thing I can really respond to that is to be actuarilly sound we must collect sufficient premium income over a period of some time to pay the losses we expect to pay, and any program which substantially liberalizes the benefit of the program we have today is going to cost more, and sometimes far more than many people perceive.

A 1 percent of guarantee increases premium of about 5 percent. It has to be paid for. We are mandated to run a sound business to the maximum extent practical, and we intend to do so, and there is no free lunch in this program, and I think most of the people recognize it.

I have heard these people say we would like improved coverage and we would like improved benefits and we are willing to pay for it. I'm not sure how much more they are willing to pay. We do know in the case of some of our experience that when premium rates got to the 20 percent area that producers backed away because it simply was too expensive. Insuring income and insuring price is another thing, and insuring price is taking a moral risk in many cases that is probably not appropriate because price is affected by people and governments.

I'm not sure if we can ever appropriately calculate insurance premium rates that will reflect those kinds of risks.

Mr. JOHNSON. If we had a workable program and had participation of 70, 80, 90 percent, wouldn't that make a lot of difference on your risk and premium over 17 percent?

Mr. SPRAGUE. It depends on what our current book of business is and I would readily concede our book of business is below average. We have what is called adverse selection, and if that is the case increased participation could result in somewhat lower premiums than we have today.

Senator JEPSEN. That is the maxim of insurance. You work on numbers. You have spread of the risk but you don't have much spread of the risk with 17 or 12 or 15 percent.

Mr. SPRAGUE. And if those are only the poorest risks, that is a distorted situation.

Senator JEPSEN. You have about the same kind of risk when they come in and say, "We will give you hospital insurance regardless of what kind of health you are in."

STATEMENT OF JAY HESS

Mr. HESS. I am Jay Hess, and I'm a farmer. In 1981 I carried Federal crop. In 1982 I had Federal crop. I lost 400 acres. I was denied it. It took me 1 year and 2 months to get my money. I'm not a very good speaker, and right now I have another farm that I was supposed to have insurance on and last spring I was trying to straighten this out and I said I want insurance. I said, "It took me 1 year and 2 months to get my money, I had to pay the bank interest all this time," and so they denied my insurance.

I was in a drought area this year and now I'm having to appeal one farm to get my money and I have to hire lawyers and I have to go to Kansas the sixth to get it straightened out.

I have to go the sixth, and all the time they told me it was their mistake and I was 1 in 2,000, but it cost me interest.

Mr. SPRAGUE. I am proposing to my board of directors at their next meeting on December 14 that the Corporation in 1984 pay to producers interest on claims that are paid after a 60-day timeframe. I'm proposing to them that if we do not pay our commission payments within a 60-day timeframe or if loss adjusters don't get a check issued within that period of time, we are going to pay them interest just as we are collecting interest from producers that pay us late.

That is a significant change in our Corporation's activities. I have already achieved the favorable opinion of OMB on this procedure and intend to implement it in the next year.

Senator JEPSEN. Are you going to make that retroactive?

Mr. SPRAGUE. No.

Mr. HESS. It puts a farmer in an awful bad position because I was cash renting this ground. I had until the 1st of September to pay them, and I had no choice but to give up the ground. Now I'm sitting with $250,000 of equipment to sell. If I had been paid, I would still be renting the ground.

Mr. SPRAGUE. I really cannot respond to this not knowing all the facts of the case. I know we terminate contracts for nonpayment. That is probably why his contract was terminated. If we turned around and paid the indemnity, as he indicates we have, we may well owe him some special consideration.

Senator JEPSEN. What time is your plane?

Mr. SPRAGUE. About 50 minutes.

Senator JEPSEN. We will take one more question, and make sure that we get the name of the lady.

STATEMENT OF HOPE MENDENHALL, DECATUR, IA

Ms. MENDENHALL. I'm Hope Mendenhall, Decatur County, and I wanted to refer to Mr. Johnson's remark, you were so afraid whereby the farmer could make some profit, and in answer to it you said we are required, we are mandated to write a program in which we make a profit. What is the difference between the farmer making a profit and Federal Crop Insurance making a profit?

Mr. SPRAGUE. Let me address that just a minute. As a Federal agency Administrator I must operate within the confines of the statute authorizing my agency. The 1980 act places a limit of 75 percent of the normal production for a farm as the maximum that we can insure. That act says that we must have at least a 25-percent deductible program, in effect.

That act also specifies what I must do in regard to price elections. One of them must represent, according to that act, at least 90 percent of the expected market price for the commodity to be insured. I have been more liberal in my determinations than that. Since I became Manager we established the price elections at the expected market price as determined by our analysts. We are doing about all we can do in terms of coverage level within the confines or our current statute.

Ms. MENDENHALL. Can I answer you now?

Mr. SPRAGUE. Yes.

Ms. MENDENHALL. You asked what is wrong with Federal crop. That is what is one of the things that is wrong with it. You have the authority at any time during the tenure of the policy to give the coverage you gave us. When we wrote our wheat coverage it was $4.10 a bushel. When we wanted to collect, it was $4. When we wrote our corn it was $3, and when we collected it was $2.70. You told us we have the right until any indemnities are taken care of and paid that we could adjust the price, but why didn't you adjust it up, the price up when the price went up?

Mr. SPRAGUE. The lady is misinformed. Price elections for the 1983 crop were established and approved by me in approximately August or September 1982. The 1982 price elections were higher than 1983 price elections. The 1983 price elections were revised downward to reflect a reduced expectation in regard to market price, but they were not changed during the term of the contract. The new prices were announced prior to December 15 in every place. They were placed on file in county offices as to what would be in effect for the succeeding crop year. No price has been changed at adjustment time. A producer under those kind of circumstances would be buying a pig in a poke. Prices have changed from year to year, but with sufficient and adequate advance notice far prior to sales closing, far prior to cancellation dates.

Ms. MENDENHALL. We had to certify our wheat on November 1, and you said you revised the prices on December 15. We were notified June 8 the price was changed. I have the letters.

Mr. SPRAGUE. In the case of wheat, revisions are on file before the termination date of those wheat policies, which in most cases is approximately the first of September, and the price elections available for 1983 wheat crop were on file at least by September of 1982 before the crop was planted and before the sales closing date and before the cancellation date for that contract.

Senator JEPSEN. I thank you, Merritt. You have put in a big day here and you have an appearance tonight.

Merritt Sprague, Manager of Federal Crop Insurance Corporation. Thank you for coming out today. I appreciate it.

If Mr. Sprague and the lady would finish their conversation out in the hall? I think they are going out in the alley. That is democracy at work. That's all right.

Rich Vande Haar, Don Payne, and Don Lacina. Don, since you are in the middle, Don Lacina, would you please state your name and where you are from and then proceed, and if you have a written statement it will be entered into the record as if read.

Mr. LACINA. I'm Don Lacina, I farm in Johnson and Muscatine Counties. I do not have a written statement but I would be happy to substantiate what I have to say with written documents.

Senator JEPSEN. I would not question what you have to say. The written statement goes into the record.

STATEMENT OF DON LACINA

Mr. LACINA. I guess I'm here in response to a problem we had 2 years ago. In 1982 my oldest son wanted to farm and rented my river bottom farm in Muscatine County. He applied to the Federal Crop Insurance

people for crop insurance, was told by the ASCS office that if he were refused Federal crop insurance by the Federal Crop Insurance Program that he could qualify for ASCS disaster payments.

He applied for Federal crop insurance, was told that he could get Federal crop insurance but not flood insurance. This is a river bottom farm so our only reason for wanting the insurance was flooding. In effect he was effectively told he would qualify for neither.

It was then later determined that since he was refused for a portion of Federal crop insurance he would qualify for ASCS disaster payments, however, in 1982 there was no ASCS disaster payment, there was no money available, so I think the testimony given earlier today is very appropriate; we need to determine either there is going to be a reasonable Federal Crop Insurance Program, or we are going to have to continue the disaster payments.

These dual things scare me, and this is kind of getting off my text, but the same thing, it scares me the comments that were made this morning about having both the ASCS office and the independent insurance agents handle this insurance. When you have a situation like that no one is really sure who is in charge, and you don't have a clear cut chain. It becomes ineffective.

In regard to the independent insurance agents, some comment was made that they have not been enthusiastic about selling Federal crop insurance. I wonder how enthusiastic any of us would be if, as we sat here today, we don't know whether we are going to have the program or not. If they are affiliated with a company they know 10 years from now they are still going to be with that company. Based on testimony today and other hearings they don't know next year whether they will have it or not, so they don't have a clear-cut case.

Anyway, to get on with my problem. We had a flood problem on the river bottom farm so we went to the local agent, and in checking we found that there was some timber land in Muscatine County that had never been farmed that had a higher rating than my river bottom ground that I have seen maps that had been farmed since the 1930's, but yet we found timber ground with a higher classification.

We applied to the actuary office in Minneapolis to get this changed, and today as I sit here right now I don't know if I can get insurance for next spring.

A lot of farmers like to put on fall fertilizer and do fall work and everything like that, but it is kind of hard because you don't know where you stand. Based on some of these things I'm a believer in the capitalistic system, I believe that government should only do for the people that which they cannot do for themselves. Private insurance companies have been quite successful in selling hail insurance and this is quite complex, so I think we might take some lessons from them and maybe adopt some of their thoughts toward crop insurance.

As far as who is going to advertise or educate the public, if you have a salable product it doesn't need too much advertising, people will walk in and ask for it. As farmers we don't want a handout, we don't want welfare, but we also can't live with a program whereby if he take out Federal crop insurance and have two or three losses we are insuring ourselves to go broke.

Right now, even though you take a loss, if you have a disaster, basically your production costs are not even covered. During that year

you still have to feed your family, make farm payments, your implement dealer comes around and wants money, doctor bills, et cetera. You can't even insure your cost of production. People wonder why we insure our house and barn. We insure those things for full value, whereas our crop, if we take out maximum insurance on our crop and lose 2 or 3 years, we will go broke by virtue of the fact that our yields in comparison with what we can actually raise are ridiculous.

I expect 140 to 150 bushels per acre on my land, and according to the tables my yield is somewhere around 62. There is just no way. Come up with a salable product and we will buy it.

As far as premiums are concerned, as I say, if we can assure ourselves, and I think our lenders have made the comment too, if we can assure ourselves we will not show a loss, I think they would be happy to loan us the money to buy that coverage, but they don't want to loan us the money to buy coverage that will assure us a loss. We are talking 75 percent of—I think the yield is something like 80 bushels. Seventy-five percent of that gets down to where I'm insuring a loss, so I'm not going to buy it.

I think there is a problem in our planting dates. It was brought out earlier this morning that if a person doesn't plant within the given dates his rates go up and his coverage goes down. Hell, it is a disaster anyway, because you can't get out in your field because it is flooded or too much moisture in the field or a sickness in your family. Why penalize him for a disaster?

Increase the coverage and the premiums along with it. If a man is willing to pay, fine, let him have the coverage. The same thing with a person that goes along and has a superfine record and doesn't put in any claims. In the first place this guy doesn't need it. He has already established by and large he is one of those people that have plenty of money to spend for fertilizer, the latest machinery and technology, and they are going to have higher yield. Supposedly this is designed for the young farmer that hasn't or doesn't have the money or has a job on the side and can't get his crop in quite as early.

Next thing, if a man has a claim his rates go up. If there is anything he doesn't need after a disaster is to raise the rates. Those are the reasons we don't buy it. As a businessman, and most farmers are businessmen or they don't last, before you pay out $10,000, $15,000 for insurance that isn't going to cover your cost, you might as well gamble and take a chance on it.

I guess that is about all I have, sir. I sure would be happy to answer any questions you have.

Senator JEPSEN. Thank you, Don. Don Payne.

STATEMENT OF DON PAYNE, VICE PRESIDENT, IOWA CATTLEMEN'S ASSOCIATION, AMES, IA

Mr. PAYNE. Thank you, Senator. My name is Don Payne. I'm a cow-calf producer and backgrounder from southeast Iowa and currently serve as vice president of the Iowa Cattlemen's Association. I would like to make some observations about FCI on behalf of Iowa cattlemen as well as observations of my own.

Our area was extremely affected by the drought and heat this summer. We had just started to recover from the drought of 1977, of which

I had FCI. We had a yield of 42 bushels, and it could only be insured for 51. This was a disaster in itself as far as I was concerned. I understand that Federal crop insurance has been greatly improved since then, however, it still leaves a lot to be desired, especially for the cattle producer, and I would like to mention just a few examples.

No. 1, what is a crop? Is it grain? Is it forages? Is it calves? Is it pigs? Is it chickens, or so forth?

No. 2, many producers in our area lost 10 to 30 percent of their calf crop this spring with one of the worst cold and mud conditions we ever had, then followed by the extreme heat and drought this summer which caused an additional 5 to 25 percent of our beef cows to be culled from our herds because they are open.

No. 3, the cool wet spring also cut into our forage loss, our alfalfa probably at 20-percent loss first cutting and our second and third cutting was almost nonexistent. Our pastures ran out in mid-July, making about a 50-percent loss there.

No. 4, the late planting provision in Federal crop insurance does not go far enough. If by weather conditions you are prevented from planting, you still need a lesser degree of coverage. Example, in 1978, I don't know why, but I again took out Federal crop insurance and when I reported my crop I found out that 35 acres of my oats were planted in time and covered and 35 acres were planted too late. Again, very disappointed.

No. 5, the proven yield concept of Federal crop insurance is yet another part of where cattlemen are really penalized, when actually we should be receiving a credit. For instance, many of us around 20 to 40 percent of our farm is used for row crops. This situation lets us use our best land for cropping, and when corn is planted on renovated pasture or alfalfa sod, first-year corn has a distinct advantage over a continuous cropping system. Facts will prove this out.

No. 6, there is yet another point, No. 6, I would like to make. In 1983 we harvested about 2½ tons of alfalfa, which was about a 60-percent loss, improved pasture was about 50-percent loss, our corn crop loss was over 90 percent, our bean loss was 60 percent. So you see, forages are not a high-risk crop, and in farming business everything counts.

To further explain this situation, I would like to use our own operation of which my son and I are involved in. We have 1,200 acres which consists of 200 cow-calf units then we purchase another 200 head of calves to background. We had a 300-acre corn base of which 50 percent was in PIK. Also included was 150 acres of beans and 50 acres of oats and 200 acres of alfalfa, and the rest being in mixed hay and rotation pasture. By using all of these figures you see only 40 percent of our operation and production was protected under FCI or PIK.

Furthermore, cattlemen are more involved in soil conservation probably than most any other segment of agriculture. Something is wrong, it seems like to me, when the abusers of the soil receive more of the Federal benefits than good stewards do.

The cattle industry has never been subsidized and neither do we necessarily want to be, but neither can we idly stand by and be penalized and scrutinized by every other segment of agriculture, and this is exactly what Federal crop insurance is doing to us.

I again want to thank you, Senator, for this opportunity.

Senator JEPSEN. Rich Vande Haar.

Mr. VANDE HAAR. That's correct. Congratulations, most people don't get it right the first shot.

Senator JEPSEN. Welcome.

STATEMENT OF RICH VANDE HAAR

Mr. VANDE HAAR. Thank you, Senator, for this opportunity to speak before you on this issue of Federal crop insurance. To begin with, I didn't quite know why I was here until I heard the gentleman next to me speaking, and now I can figure it out quite plainly.

I also farm in a flood plain, about 12 miles below Red Rock Dam, which I'm sure you are aware is a flood control project. The reputation of the Des Moines River was quite notorious back before 1969 when they threw up a big levy across it, and we are fortunate to be on the bottom side of it, which has definitely turned our bottom land into very productive types of soils. Before that time it wasn't uncommon to get flooded out the 1st of June and again in July or August when we did have a crop planted finally, but like I said earlier, when this was done I moved into the area in the spring of 1969 when they closed the gates.

They said it would take approximately 3 years for this structure to fill. I think they closed it around the first of April when the snowmelt up north started coming down, and by the middle of May it was full, and they said it would never be any fuller again. So you see what it has done for us since 1969.

From 1969 we never had one flood until 1982. There are two tributaries called the English, which comes down from the west, and Cedar Creek, which comes from the southwest. They had a lot of rain in the Albia and Melrose area and henceforth Cedar got out and they didn't get the gates closed soon enough and we did suffer considerable loss.

At that time we were renting close to 300 acres of just this bottom land in our neighborhood including our own farm. All 300 acres went under water and completely covered, no less than the corn was shoulder high getting ready to tassle at that time. After the water went down, it went down overnight, we managed to get close to 90 bushels out of the corn and 30 bushels out of the beans. We were quite fortunate.

One other thing, you go back to the drought of 1977, we were involved in that. Our own operation did not get any disaster help because our yields were a little over the top in 1982. Like the gentleman said, there was no funds available, but we still salvaged a decent crop. This past year with the drought our yields were respectable, our corn went anywhere from 65 to about 85, in that area, so we are quite fortunate.

This gets back to my involvement in Federal crop. I have never been in the program. I was approached once back in the mid-1970's by a person who drove in the yard one afternoon and I listened to him and was quite enthused until he whipped out his map and said, "Woops, I think I'm on the wrong place."

At that time we farmed a small farm west of us and it wasn't involved in this, but it was creek bottom, and all he would insure was

40 acres of hill ground on it, so needless to say, we didn't participate and never have up to that time.

Now we talk about the new program that we supposedly have, and since they turned it over to the independent underwriters. Since last week when I knew I would be involved in this I have visited with my neighbors that live up and down the Des Moines River and Cedar Creek and found there was quite a discrepancy on who can get in and who can't. We have one man who has a farm in Mahaska that is eligible. He has a farm across the road in Marion County he cannot get Federal crop on. My land, as I understand, can't get in it, but the person right next to me, his farm can get in it but the rates are so high he told me the other day at lunch he had to get worse than a 40 bushel yield before he felt it would justify itself. When we are looking at today's cost and everybody is trying to trim cost, whether it be fertilization or insurance, that is the first thing we look at, is what you are getting for your dollar, so he didn't get in either.

I talked to our local farm bureau underwriter. He says of the 600 clients that he deals with only 8 of them took out Federal crop. I said, "Steve, why is that, what don't people like about it?" just asking a few questions, and he said, "It is too complicated." The people do have losses—as I understand it, this is just what he told me and through no knowledge of my own—but he said if you have a history of losses that you can go out on a farm and write coverage and the person has no idea what it will cost him until he gets it back. I know of people around us where—this is kind of a generalized statement—but I think Federal crop rewards the poor producers, whether it be because of his type of ground or because he is ultimately with his planting or harvesting or whatever. I don't want to emphasize that everybody that has Federal crop is a poor operator, but I think we are getting the low scale that generally are in the program. I don't want to disagree with what these folks said here, but I just look at the people around me that are in it.

My own feeling on how it can be improved, like everybody said prior to this, the coverage has to be raised. When a business goes out and purchases business interruption insurance he does not just purchase insurance to cover his employees or keep his door open, he insures for that loss of time that he is going to sustain. I think farmers as a whole have looked at insurance, whether it be crop, hail or anything, that if we get our proper cost of production back that is all we need, but you cannot feed your family by getting cost of production back. After 4 years of pretty sour pork prices we finally figured that out. We have to make some money some time or another. If you are going to insure you better insure for what it is worth, like the gentleman said, his house or car, because you can't insure for anything else.

Naturally we would like to see the most reduced rate as possible, that is just human nature.

Last, I personally feel that farmers should be able to set their own yields, just like the man that drives on your yard, if you want to insure for 40 bushels of beans and 150 bushels of corn, fine.

This business of letting the ASC office handle it, I spent half my life in the ASC office this spring and I don't want to do it again. This yield thing goes back clear to the beginning. The grain farmers that

can prove yields by scale tickets and so forth definitely have an advantage, and we see it in the PIK program, but the livestock farmer like myself that feeds all his grain, you don't know where to start, and the livestock producer has definitely been scrutinized as far as yield and basis go, so that is the last place I look to see it.

Right now they have more work than they can handle. Until the PIK program came along they could handle it, but now they can't anymore. It is too burdensome.

I appreciate this opportunity to speak today and any questions, I would like to answer them.

Senator JEPSEN. I'm not sure but what you recommended a first—of all the panels today—when you said let the farmer pick his own. This is an interesting thought. If he wants to insure for a hundred bushels, he pays for a hundred bushels. Then you don't have to waste time.

Mr. VANDE HAAR. I would like to say one thing. I don't have a prepared statement and I'm not a very good speaker, but I have some notes here, but my main point here today was before 1969 when we had this flood problem and since Red Rock is a flood control project, I see no reason why we can't get Federal crop on these crops today. That is basically my main point and I missed it earlier. Excuse me.

Senator JEPSEN. We will be breaking up here in about 10, 15 minutes. I want to ask this question. Do you think that the Federal Crop Insurance Corporation should be administered through the ASCS? How many people here think it ought to be done? It has come up time and time again.

How many people think it should not be administered through ASCS?

Mr. LACINA. Can I comment on that?

Senator JEPSEN. Yes.

Mr. LACINA. I feel strongly about this. The thing we seem to be beating around the bush all day is premium and rates.

Senator JEPSEN. The overwhelming majority in the group here felt it should not be administered by the ASCS.

Mr. LACINA. However, it appears to be too complex for us to handle, yet it strikes us as being strange that the private sector, the insurance companies in the private sector can put out insurance and come up with rates that are not exorbitant, that are affordable, that people buy readily, that appear to give back some payment without having to go broke to do so, and the FCIC doesn't seem to be able to accomplish that, so I'm in favor of letting the private sector give it a shot. They seem to have expertise that we don't have somewhere.

Mr. PAYNE. Senator, in visiting with Federal Crop officials, I have always carried hail insurance ever since I started farming, and one year I had a complete loss and collected $30,000 so that kind of makes me a believer, and you continue to do so, but time and time again I ask them, "Why can't you do it on a field to field basis?" "We just can't do that, it costs too much." If you can do it in hail, I see no difference. Why do we always feel like we run up against a stone wall? They just shake their heads, "We just can't do it." Why is this? I have never found the firm answer yet.

Mr. LACINA. One more thing, sir. In the event it is turned over to the private sector it would have to be reinsured by the Federal Government. I don't think there is anyone large enough in the country to

handle it in the private sector, it would have to be reinsured by the FDA.

Senator JEPSEN. Do you have any further comments?

Mr. VANDE HAAR. I had a comment but I forgot it.

I know what I was going to say. I am on the Iowa Pork Producers, I'm the State director for the association. A few years ago we talked about expanding Federal Crop and insure basically business interruption, and at that time I was against it basically for the reasons of Federal Crop. You can insure yourself for anything you want to, but there are so many things that we as people can't foresee, and I think we have to build it in to accept these things. As times get worse these things become more and more prevalent, whether it is drought or flood or whatever, but basically my feeling is if we could all get along, whether it be crop, hail, I have been farming 15 years and I got my first hail loss about 5 years ago and I don't think it would near put back what I pumped into premiums. Insurance is just not a money making thing unless you happen to get a first year. Let's look at health cost today of Blue Cross and Blue Shield, and that is worse yet. We should have a hearing on it.

Senator JEPSEN. We have to get this thing straightened out first.

Mr. VANDE HAAR. After sitting here since 1:30 I think it is a little big for all of us.

Senator JEPSEN. Mr. Lacina, do you have anything in closing?

Mr. LACINA. No, sir.

Senator JEPSEN. Don Payne, do you have anything?

Mr. PAYNE. Senator, I would like to close with a little remark I heard a little bit ago. I don't whether it happened this morning, but it was about the makers who were making dog food and they said sales was terrific and everything like this, and finally some smart cookie got up and said, "Why aren't we selling more dog food?" and they said the dogs don't like it, and I think the same thing applies to Federal crop insurance. We don't like it.

Senator JEPSEN. I seem to remember that.

I thank you very much. Your panel is dismissed. Thank you, very much. I open up these hearings for anyone wishing to make a statement. I respectfully ask that you try to keep it to that, or a question that anybody may have, a suggestion. We have about 10 minutes to do so if there is anyone here today that would like to come up and hold forth here, hold court, so to speak.

There we go. How did you do with Mr. Sprague?

Ms. MENDENHALL. He didn't convince me and I didn't convince him and he said obviously someone made a mistake.

I get the impression this morning that through this whole meeting that you think the farmers have really been a little bit stupid in not carrying Federal crop insurance and possibly maybe some of us have. I just have a question. You played the pretend game with Leslie Miller, so let's play the pretend game with me.

Senator JEPSEN. What is your name?

Ms. MENDENHALL. Hope Mendenhall from Garden Grove, IA.

Let's say you decide you want to be a Senator, so you exhaust all of your——

Senator JEPSEN. I think you should use a microphone. People want to hear this.

Ms. MENDENHALL. You decide you want to be a Senator, you want to go and help the people of Iowa, you want to devote your life to this, so you take all your resources and you put them into getting elected and you get elected. You go to Washington, DC, and you move your family to Washington, DC, and it comes the first day that Congress is going to meet. You go to your meeting and they stand up and they say:

There are a few of you here which we really won't need for the rest of the year, so we will pay you what it cost you to move to Washington, DC, less 10 percent for handling charges, but you must stay here in Washington, DC, just in case we might need you. You have to stay here but you will draw no salary. You come back next January and you see whether we will use you.

Would you go? Would you do it? That is exactly the situation Federal crop gives us, that is the choice we have. We can put the crop in and spend the money and take out the insurance. If something goes wrong we get back almost what it cost us to put it in and we have another year to go before we have any more income. That is all we have to say. It has to be better than that. If you give us a better deal than that the farmers will sell it. I guarantee you, I will get everybody in our county involved.

Senator JEPSEN. I believe you, Miss Hope Mendenhall.

Mr. MILLER. I'm Bob Miller from Scott County.

Senator JEPSEN. Would you come up?

Mr. MILLER. I have just a couple of comments.

One thing, I was disappointed to see you had no one on the panel from the northern part of the State, and the other thing I feel is if crop insurance is going to work it should be administered like the gentleman said before. Administer it on a field-to-field so much as an acre what the farmer wants to pay for it and be adjusted the same way. That is my personal feeling, because hail insurance is handled that way and they seem to make a go of it. They pay you for the damage that is done. That is the only comment and thank you, sir.

Senator JEPSEN. Our first person to testify was from Grundy Center, which I guess isn't north. Roger Engelkes, I would point out, is a banker from up in the Grundy County area, and Garden Grove. Where is that?

Ms. MENDENHALL. Straight south 70 miles right in the heart of the drought.

Senator JEPSEN. Yes, ma'am. Would you please identify yourself?

STATEMENT OF JOY TEAGLE, AGRI BUSINESS INSURANCE CONSULTANTS

Ms. TEAGLE. I'm Joy Teagle with Agri Business Insurance Consultants, which is an insurance firm that handles, manages farms for Hertz Farm Management. I would like to reinstate my question that I asked this morning after hearing the comments of the last two gentlemen and think perhaps the question I asked this morning was not fully understood.

I asked this morning if they would rather have crops adjusted on an acre or field basis rather than an average basis. In the last 10 minutes I have heard gentlemen say we would like to see it handled like crop hail insurance, so if we have a loss in one field we are not penalized in the other field. One gentleman said to me, "I insure all my

buildings including my house, however, if my house burns I don't have to burn down the rest of my buildings to get paid for my house," and this is what I was trying to say this morning.

In dealing with farmers in the rural areas this is a question I'm running into. One of the things I'm finding in listening today, there seems to be a direct conflict as to where multiperil crop ought to be administered out of. One of the things I feel very strongly about, I do believe in free enterprise, I think the private sector has proven that you can write multiperil insurance and have it come out.

In 1976 or 1974 they came out with a first multiperil policy for businesses. I heard this morning in visiting with Federal Crop people, and they said, "You can't insure your profit, we can only cover your cost of production so you don't lose for your cost of production," however, I also heard people say this morning that the hardware man insures his hardware store, so people ought to buy Federal crop.

The hardware man can buy business interruption to cover his profits and he does buy it and he is many times out of business for 12 months, the same length of time it would take a farmer to get back into operation, and he can buy and it is affordable and insurance companies are making a profit, so something tells me that either the way it is handled in the Federal Government or somewhere along the line there is too much overhead if they think they are not going to make a profit if they get a wide spread of risk with a homogeneous group with the same risk. We have farmers all over the United States. All are not in in the flood plain and all are not going to have root worm if it is a cotton crop in the Southern United States. If it is set up on the right basis it can be put into effect and it can be profitable for the people involved and give the farmers the coverage they need to protect their assets.

I don't want to be in business for 5 years and only make back my cost of production, and I can't see why we should expect them to only make back their cost of production where the hardware store can buy loss of income to cover his profit, so I think there is a way of solving it. I think maybe we are going about it in the wrong way.

Senator JEPSEN. Thank you. You are saying that we should build product and product should consider all risks and do as they do in every other area where risk is involved. They provide business interruption insurance. Why shouldn't you, on the same basis or seasonal basis, provide the same coverage?

Ms. TEAGLE. The cattleman who was talking about his open cows, I have a hog confinement unit right now that has the same amount of hogs on an annual basis and keeps production going constantly. If the ice storm the other night caused electrical malfunction there and they were not able to get back into operation for 30 days, and the heat this summer caused the loss of conception, they are going to be 12 months down the road before they can get back into a profitmaking picture. If the hardware store can protect against the ice storm that is going to cause his business to collapse or go down, why is it that the farmer can't?

Senator JEPSEN. It is a good question. Thank you.

We have one of our panelists returning. Mr. Gibson.

Mr. GIBSON. Rick Gibson, I'm with American Agrisurance. I think there are just two things or a couple of things that I would like to mention that have come up today.

One is that private industry is in this business, but our involvement is very much limited in what our involvement could be. We have a sales ability, we have the agents and we have the opportunity to process the business and we do participate in the losses, but one of the things and one of the limiting things to us is that the actuarial is all done by FCIC, the rates are promulgated by FCIC, the guarantees are promulgated by FCIC.

I think there has been, as I have heard, many suggestions that private hail, private companies, hail companies can do it. I would like to see FCIC make more use of the abilities of the private industry and the involvement of the actuarial construction of rates and guarantees.

I think that one of those things, one of the suggestions that we did have, as a member of the American Association of Crop Insurers, we met in July and forwarded to FCIC at their August meeting and their board of directors a revised IYC that would make it very easy for many of the farmers to accommodate a much higher yield rate guarantee.

No action was taken on that in August and none was taken in September or October. Finally it was denied, and I think now there is some movement from the FCIC to relax the rules under the IYC program, but the relaxation that is taking place in my opinion is not positive enough to get the participation that is necessary.

Senator JEPSEN. I thank you. I would like to take this last few minutes to express once again my appreciation for your attendance. I have been most impressed by the numbers. The room has been packed and full and overflowing most of the day. I have also been most impressed by the number of people who have stayed all day. Your presence alone here underscores in my mind the importance that you place on this risk management FCIC problem and so on that we have been discussing today.

I also want to thank the witnesses that appeared today. Each witness presented his or her case concisely. Many who appear and with whom I serve in Washington could have learned a lot from many of the witnesses that were here today. I congratulate you and salute you for it.

I would like to summarize the major issues in this hearing which must be addressed so you can all achieve greater levels of satisfaction with crop insurance protections. If I have missed something you can give us a note or remind of us of it afterwards.

The questions that have been asked and problems posed are these: Is all land properly classified? Are the yield levels too low? Should we eliminate disaster payments from the statutes? Should we decentralize FCIC? Should we move some of the functions out of the Kansas City office? Should we raise the premiums to provide for greater coverage? Should coverage be based on an acre-by-acre basis rather than unit coverage? Should we, as Merritt Sprague suggests, leave FCIC alone and give it a chance, or does it need a major overhaul, a little encouragement? Should lending institutions, especially Farmers Home Administration, make crop insurance mandatory? Do we have a tremendous communication problem with FCIC, farmer, local agent, and so forth?

These are just a few of the questions, and in going through the list I know that we didn't hit them all, but I think this meeting today

will provide a record that is second to none, I assure you that the record, when it is completed, will be not only reviewed and discussed in in the Agriculture Committee of the Senate, but also be presented to the Agriculture Committee and the appropriate subcommittee of the House of the Congress, Mr. Sprague and company, including the Secretary of Agriculture and his assistants, will all have this record presented to them.

They will be briefed and there will be some recommendations made. I would ask that you fill out the forms in the lobby. There are some forms that we can use to keep you posted regarding both our initiatives and our programs.

I thank you all for coming. I wish you a safe trip home. I now declare this meeting adjourned. Thank you for coming.

[Whereupon, at 4:30 p.m., the committee adjourned, subject to call of the Chair.]

APPENDIX

STATEMENT OF HON. COOPER EVANS, A REPRESENTATIVE IN CONGRESS FROM THE THIRD DISTRICT OF IOWA

Mr. Chairman and Members of the Committee, it is a pleasure to appear before you today to express my thoughts on the Federal Crop Insurance Corporation (FCIC) programs.

I want to make it clear that my experience with the program, as a farmer has been excellent. I personally have absolutely no complaints. The program has served me well. I say that in spite of the fact that in that 2 or 3 years of experience, I have only had one claim paid to me and I have paid into the program something like three times the amount I have received from it. When I needed it, it was there. It was an extremely valuable help at a time when I would have had serious problems without the insurance.

I also want to emphasize that as a Member of Congress, I am a strong supporter of the Federal Crop Insurance system. I believe Federal Crop should be the primary vehicle for delivering disaster relief.

I am not here today to merely praise but also to offer constructive criticism. I think there are many valid criticisms of the program that can and should be made.

The criticism that I will voice is based on discussions with farmers who have participated in the program, or who have decided not to participate, and with numerous insurance agents who have offered the program in my district.

The purpose of my criticism is to bring to the attention of the committee and to Federal Crop Insurance Corporation several suggestions that have evolved from these discussions since the program needs to be improved. Federal Crop Insurance is not yet performing and delivering services as it must in the years ahead if it is going to perform the mission envisioned by the United States Congress.

My first concern relates to the level of participation. As I understand it, participation is about 12 percent nationally. Participation had been 16 percent before enactment of the Act of 1980.

In Iowa, it is my understanding we fall far below the national level of participation. In the 1983 crop year in Iowa, the coverage on corn acreage was 4 percent and the coverage on soybeans was 6 percent .

I note with great interest this is in tremendous contrast with at least one county in Iowa, Dallas County. Even in 1983, the participation was 13 percent, but the remarkable thing is that in 1981, participation in Dallas County was 70 percent. This was at a time when the crop insurance was offered through the Dallas County ASCS office.

I want to make it clear that I believe that Federal Crop must continue to be available through the private sector agents and companies. However, after 3 years' experience, their efforts are, in my judgment, a total failure with respect to increasing participation.

If high participation is a national policy goal, in my judgment, Federal Crop Insurance must also be available through the 1,200 ASCS offices in this country. I do not see any alternative if we are to get increased participation. The program needs all the delivery sources we can find. The County ASCS office is a great resource that has not been used the past 3 years. Either the delivery policy or our participation goals have to change. It is that simple.

The second concern I have is the cost of delivery. Your committee should closely examine and review the costs associated with delivery of Federal Crop under the present system. I have been having problems getting appropriate statistics and information to properly analyze this; however, I have reason to believe that they are extremely high.

I suspect that under the present system of delivery, the administrative costs are such we could not possibly begin to afford universal participation in the pro-

gram. I personally believe, based on experience in this state's pilot programs of delivery through ASCS, that costs could be dramatically reduced if the program was delivered in part through the ASCS system. I think this is well borne out by experience in Dallas County here in Iowa. Costs are another strong argument for utilizing the ASCS as part of the delivery system.

A third concern has to do with pilot programs for evaluating the delivery system. The 1980 act, very specifically sets out that Federal Crop and the U.S. Department of Agriculture were to conduct for 4 years a series of pilot programs in selected counties to evaluate methods of delivery. There were 40 such counties in 1979, but this pilot program was stopped in 1981. I think it would have been extremely valuable at this point to have had several years' experience with the delivery of Federal Crop Insurance through selected ASCS offices for cost comparison. I recommend the pilot programs be continued. Delivering Federal Crop through county ASCS offices on a trial basis would certainly be in order.

I also have a number of more specific complaints and suggestions that have been brought to my attention by agents and producers, in my district.

The first is unwarranted loss by producers of good experience benefits and elimination of bad experience benefits. The longer a producer participates in the program, if he has a good record of not claiming excessive losses and a good production record on the farm, premiums are substantially reduced.

For example, I have been in the program for 12 or 13 years. I am paying at the present time roughly half the premiums I would pay if I were a new producer entering into the system, so this good experience is extremely valuable to me.

On the other side, if I have a bad production record, the premiums would be increased over those required for a producer participating in the program for the first time. This is important to the solvency of the program, but the point is, if you change agents or if an agent changes you from one basis to another basis, the producer may lose the benefit of that lower premium. Likewise, the bad experience record may be lost and the Crop Insurance Program will receive a lower premium.

Several incentives exist in the Federal Crop Program that encourage the loss of production records. Commissions are higher for new insurance. Therefore, there is an incentive for one agent to steal customers from a different agent, or to change the status of that customer.

It is easier to sell to a person if the agent can tell him, "Well, if I rewrite your policy and put you on a different status, we can eliminate the bad experience and therefore reduce your premium."

There is evidence that this has been occurring in some instances in the program in the last several years. I think this should be investigated. Abuses should be sought out, and appropriate punishment given. Restitution should be made in those cases where producers have unjustly lost their good experience benefits.

Frequently the processing of claims and payment of adjustment is slow. In some instances, there have been 90-day delays through the National Service Office in Kansas City. Part of this delay, on claims can be attributed to the need for reviews at multiple levels, including the field supervisors in the Des Moines office. It is reported the private insurance companies have been paying claims in a more timely manner and I think we need to very closely review this matter.

Another similar complaint is the slow processing of acreage reports. Some of the acreage reports that were submitted by June 30, 1983, have not yet been acted on by the National Service Office in Kansas City. There has been a 5-month period where some producers have planted, have harvested their crops and still do not know for sure whether they had coverage during this crop year or what their premium will be. The producers cannot be certain whether they would receive a claim if they had a loss. Steps need to be taken to shorten the processing time.

A similar problem is with the slow paying of commissions to agents. Commissions are due when the premiums are paid. There are no commissions yet to some of these agents on premiums that were paid in early September. Remember, the policies were written last spring or last winter. It is almost a year later and the agents involved in some cases have received no commissions. I recommend reinstating the system of giving the agents 5 percent of the commission when they write the insurance to pay their out-of-pocket costs, and then making sure that the balance of the commissions is paid promptly when the premiums are paid in full. This would be an incentive to increasing sales efforts.

Another somewhat more complex problem has to do with policies of Federal Crop Insurance on the division of production units. The guidelines regulating this

are constantly changing. Many producers divide their entire acreage into a number of production units. I have mine divided into five units right now because I have five different crop share tenants working with me on that ground. There have been some cases where units that have been established for a number of years, no longer meet the guidelines.

For example, in my district, I have a producer that had been using the same units since 1976. They had been accepted each year since that time by Federal crop, but in 1983 when he had a loss and he filed a claim, he was told that those units were improper and that he had no coverage. Yet there was no evidence over those many years that there was any difficulty with the units and the division has remained the same.

The doubts associated with the policies regarding division of farm units in my judgment, are totally unacceptable. A situation where the insured doesn't know for certain whether or not he is really insured and has appropriate units until he files a claim is unacceptable.

The last point I would mention is the very complicated actuarial program. It is very difficult to work with the present system. To illustrate what I mean, in one county in my district, there are nine map areas that are used as a basis for setting the insurance rates. This is not unusual, but the difficulty arises since there are 170 written amendments to those nine sets of maps. It is virtually impossible for an agent and a farmer to be certain that they are properly pricing the insurance when the system is so complicated. Certainly there ought to be a simpler way. Maybe it should be based on established ASCS yields.

Finally, I would like to submit to the Chairman for inclusion in the record testimony that I gave to a committee in Washington not long ago on a point on something I think should be added to the Federal Crop Insurance, and that is a separate system and policy relating to protecting producers from losses in elevator bankruptcies.

It has been examined in considerable detail. It would be cheap to the producers and it merits consideration.

Mr. Chairman, this concludes my testimony. Again, I think you for the opportunity to appear before this Committee and I would be happy to answer any questions that you may have.

[The following material was inserted at the request of Representative Evans:]

STATEMENT OF HON. COOPER EVANS BEFORE THE SUBCOMMITTEE ON CONSERVATION, CREDIT, AND RURAL DEVELOPMENT OF THE HOUSE COMMITTEE ON AGRICULTURE, NOVEMBER 17, 1983

Mr. Chairman and Members of the Subcommittee, it is a pleasure to appear before you today to testify in support of my bill, H.R. 3049, the Federal Crop Insurance Act Amendments of 1983.

This legislation was initiated during the deliberation earlier this year of the Ad Hoc Subcommittee on Grain Elevator Bankruptcy, of which I was a Member. I believe that the Subcommittee did a thorough job of investigating the problems of grain elevator bankruptcy and presenting possible solutions to the problems in the Subcommittee report. In its report the Subcommittee made recommendations for three areas: prevention, bankruptcy code changes, and loss recovery. This bill addresses the problem of recovering losses due to the bankruptcy or insolvency of a grain warehouse or elevator by authorizing the Federal Crop Insurance Corporation (FCIC) to offer protection to producers, through insurance coverage. While I recognize that a number of private insurance companies are beginning to offer such coverage, this is being done in a very limited geographic area or made available only to a limited clientele. Therefore, I believe that during this time when markets are being tested, there is a need for the type of broad based coverage that FCIC could offer to farmers.

This program, if adopted would be separate from the yield insurance programs of FCIC and require that this specific program be reauthorized by Congress before the end of the 1986 Congress if it is to continue. Prior to the expiration of this authorization. Congress should take a look at the progress of private industry into elevator bankruptcy insurance to determine if there is a need to continue the program through FCIC.

Like the current program, coverage should be made available through private licensed agents through reinsurance or any other arrangement that the FCIC approves. To aid in the sale of this insurance, a list of private agents offering insurance is to be made available to the public in each local ASCS office. In addition, the coverage is to be made available in each local ASCS office and a notice of that must be posted in the office. This again is to be done to promote the sale of the

insurance. Employees of ASCS who sell insurance for that office need not be licensed.

The premiums are to be actuarially sound and may not undercut private insurance premiums. The insurance policies sold through this program would only cover grain stored in federally licensed warehouses or warehouses with Uniform Grain Storage Agreements with the Commodity Credit Corporation (CCC). This in no way affects the sale of private insurance that is not in any way associated with FCIC.

It is important that farmers receive a fair and prompt payment in the event of an elevator failure. The bankruptcy of an elevator places a great financial strain on not only the farmers who have grain stored in that elevator but the entire community which is dependent on those farmers as customers. This legislation requires that the grain be valued at the current local market price and that at least 60 per centum of the payment due be made to the farmer within 30 days from the time the claim is filed. If an indemnity payment is made, the farmer must agree to sign over an appropriate portion of interest in the commodity to the insurer.

I believe that farmers should share, as in any type of insurance, some of the risk involved in storing grain or other commodities. Therefore the legislation states that FCIC will cover up to 80 percent of the loss and the farmer will be responsible for 20 percent of the loss if it occurs. In order to spot early signs of possible warehouse insolvencies, all sales of insurance coverage shall be reported to FCIC. It is my opinion that farmers have some indications if an elevator is being managed poorly and is heading towards a bankruptcy. An unusually high number of sales in a particular area would indicate to me that there are potential problems in that area. The FCIC has 30 days to accept or reject any application which will give FCIC a chance to investigate a problem area and reduce the risk of loss.

Mr. Chairman, this concludes my statement. Again, I thank you for the opportunity to testify before this Subcommittee and would be happy to answer any questions that the Subcommittee may have on this legislation.

I

98TH CONGRESS
1ST SESSION

H. R. 3049

To amend the Federal Crop Insurance Act to authorize until December 31, 1986, the Federal Crop Insurance Corporation to insure producers against the loss of commodities due to the insolvency or bankruptcy of warehousemen who store such commodities.

IN THE HOUSE OF REPRESENTATIVES

MAY 18, 1983

Mr. EVANS of Iowa (for himself and Mr. EMERSON) introduced the following bill; which was referred to the Committee on Agriculture

---

A BILL

To amend the Federal Crop Insurance Act to authorize until December 31, 1986, the Federal Crop Insurance Corporation to insure producers against the loss of commodities due to the insolvency or bankruptcy of warehousemen who store such commodities.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Federal Crop Insurance Act Amendments of 1983".

SEC. 2. (a) TECHNICAL AMENDMENTS.—Section 508(a) of the Federal Crop Insurance Act (7 U.S.C. 1508(a)) is amended—

(1) in the third sentence by inserting "offered against loss in yield" after "insurance",

(2) in the eighth sentence by inserting "with respect to yield insurance" after "offered",

(3) in the ninth sentence by striking out "Insurance" and inserting in lieu thereof "Yield insurance",

(4) in the tenth sentence by inserting "yield" after "refuse", and

(5) in the eleventh sentence—

(A) by striking out "Insurance" and inserting in lieu thereof "Yield insurance",

(B) by inserting "yield" after "except that", and

(C) by striking out "crop-insurance" and inserting in lieu thereof "yield insurance".

(b) WAREHOUSE BANKRUPTCY INSURANCE.—Section 508(b) of the Federal Crop Insurance Act (7 U.S.C. 1508(b)) is amended—

(1) by inserting (1) after "(g)",

(2) by adding the following new paragraph (2):

"(2)(A) And directed, to provide to producers an insurance program, under such terms and conditions as the Board

may determine, to protect against financial loss due to insolvency or bankruptcy of warehousemen who store agricultural commodities under a storage contract or warehouse receipt for such producers.

"(B) The insolvency and bankruptcy insurance program shall be separate and distinct from the insurance program provided by the corporation against loss in yield and contracts entered into for each type of insurance shall be seperate and distinct.

"(C) The Board is authorized and encouraged to involve the private insurance industry in the insolvency and bankruptcy insurance program through reinsurance or other arrangements deemed by the Board to be desirable and advantageous to producers and the Government, including sales through licensed private agents and brokers who wish to participate in the program under terms and conditions approved by the Board.

"(D) Insolvency and bankruptcy insurance shall be offered for sale in each county office of the Agricultural Stabilization and Conservation Service. In each such county office a prominent notice shall be displayed notifying producers that such insurance is available in the county and upon request the office shall inform a producer of all agents offering insolvency and bankruptcy insurance within the county.

"(E) To the extent agreed to by the Board and the Administrator of the Agricultural Stabilization and Conservation Service, and approved by the Secretary, the Agricultural Stabilization and Conservation Service may serve as agent of the Corporation in administering and managing the insolvency and bankruptcy insurance program, and the Board may delegate to the Agricultural Stabilization and Conservation Service any authority established by this section.

"(F) Other provisions of law notwithstanding, an employee of the Agricultural Stabilization and Conservation Service need not be a registered or licensed insurance agent under the laws of a State in order to sell insolvency or bankruptcy insurance authorized by this section within a county office of the Agricultural Stabilization and Conservation Service.

"(G) An insolvency or bankruptcy insurance policy issued to a producer shall cover risks of loss only on commodities stored in warehouses which are licensed under the United States Warehouse Act or warehouses where there is in effect between the warehouseman and the Commodity Credit Corporation (CCC) a uniform grain (or rice or dry edible bean) storage agreement and which meet such other conditions as the Board shall by regulation establish. In making such determinations, the Board may refuse to offer insurance coverage for commodities stored in certain ware-

houses due to what the Board perceives to be unreasonable risk to the Corporation.

"(H) Insurance offered under this section shall cover 80 per centum of the losses sustained by an insured producer on commodities stored in an approved warehouse.

"(I) The insurance coverage program offered to producers against loss due to insolvency or bankruptcy of warehousemen shall, to the maximum possible extent, be actuarially sound, and premium rates shall be set accordingly: *Provided,* That premium rates in a State shall not be less than those for the lowest priced comparable insurance reasonably available to all producers in State from the private insurance industry.

"(J) Notwithstanding any other provision of law, the Corporation shall have thirty days to decide whether to accept or reject an application for insurance, and all applications received by the Corporation or its authorized agent that are not rejected and applicants so informed within thirty days shall be presumed to be accepted: *Provided further,* That insurance being renewed shall remain in effect until thirty days after renewal is denied and the applicant duly informed.

"(K) In the event insolvency or bankruptcy of a warehouseman prevents an insured from removing, selling, or otherwise disposing of an insured commodity the Corporation shall within thirty days of receipt of a claim make an initial

payment to the insured in an amount estimated by the Corporation to constitute sixty per centum of the value of the insured commodity.

"(L) Indemnity payments shall be based on the local market price of an insured commodity on the day insolvency or bankruptcy is publicly declared.

"(M) In the event an insured receives a payment from the Corporation in full or partial settlement of a claim under a policy issued under this section the insured shall assign an appropriate interest in the commodity covered by the policy to the Corporation or its agent.

"(N) Except as otherwise provided in this section, insolvency or bankruptcy insurance authorized by this section shall be continuously available to producers for purchase and sales shall not be limited to a short period each year. The Board shall establish a system that ensures prompt reporting of insurance sales to a central office designated by the Board and shall provide from that office a continuing computer analysis of those sales to promptly identify deviations from established patterns of insurance sales that could give early warning of pending financial problems of a warehouseman.".

EXPIRATION AND REPORTING

SEC. 3. The provisions of this Act shall expire on December 31, 1986, and the Secretary shall by February 1, 1985, report to the chairman of the Committee on Agricul-

ture of the House of Representatives and the chairman of the Committee on Agriculture, Nutrition, and Forestry of the Senate recommending whether the insolvency and bankruptcy insurance program established by this Act should be reauthorized or allowed to expire, and setting forth the reasons for the recommendation, including but not limited to analysis of the extent comparable insurance is or can be expected to be available from the private insurance industry, the extent of producer participation and interest, the effectiveness of the program in reducing producer losses, and the extent to which the program has been useful in identifying to the Department warehouses having financial or operation problems that could cause insolvency.

AUTHORIZATION FOR APPROPRIATIONS

SEC. 4. There is hereby authorized to carry out the provisions of this Act, such sums as may be necessary, but not to exceed $1,250,000 in fiscal year 1984 and $1,000,000 in each fiscal year thereafter.

STATEMENT OF MERRITT W. SPRAGUE, MANAGER, FEDERAL CROP INSURANCE CORPORATION

Why haven't crop insurance participation rates risen to meet expectations?

There are several reasons which, in my opinion, have contributed to the situation which we face.

1. The expectations were too high. It was unreasonable to expect that FCIC could grow from an insurance company writing about 10 percent of the then limited potential business with $157M in premium income in 1980 to one writing 50 percent of a vastly expanded potential business with over $1B in premium by 1984. No private company in any line of business would likely have achieved such expectations. The record does show significant growth in participation and attendant difficulties in coping with the increased volume.

2. The expansion of county crop programs from 4,629 in 1980 to over 18,000 in 1984 combined with the establishment of a completely new private sector delivery system with many new agents, diverted resources from other needed marketing and actuarial efforts.

3. In 1983, there were some likely, one time, negative influences on sales as measured by premium income.

A. The PIK program shrank the universe in which to sell crop insurance. Planted acreage of potentially insured crops dropped from about 280M to 200M, down 29 percent.

B. Compared to 1982, price elections for many crops were reduced reflecting market price expectations. For example, the $7.00 high election for soybeans in 1982 was reduced to $6.00. The net result on soybean premium income, assuming the identical planted acreage and premium rate, reduced the volume by 16.7 percent. The effect on corn was down 10 percent, wheat down 11 percent.

C. A program change in citrus resulted in the skipping for reporting purposes of the 1983 crop year. Thus $3.5M premium income reported for 1982 is reported as $0 in 1983.

4. The state of the agricultural economy in the past two years has had an adverse impact on the willingness of producers to commit limited cash resources to any discretionary purpose. Other needs came first.

5. While each of the above had a negative impact on business growth, the most significant factor, in my belief, is that producers have not yet regarded crop insurance protection as a generally accepted business practice. They insure their houses, barns, livestocks and machinery. Growers purchase liability insurance. Farmers own health, life, accident and casualty policies, yet fail to cover the greatest financial risk they accept, the uncontrollable weather and other risks relating to production.

"Why," you ask, "is this so?" there are some simple answers that partially answer the question and do apply to a portion of our potential clientele.

A. Some are readily able to assume the risks involved. Nearly 50 percent of the land is operated by producers who are relatively secure from a financial perspective. A significant number of landlords with insurable interests in crop production feel little need for protection. Their farm interest sometimes represents only a small portion of their diversified assets.

B. While most other types or classes of insurance are generally viewed as protection, crop insurance is often considered an investment which must show a return exceeding its cost, soon.

C. Generally, lenders have not required crop insurance as a condition of farm operating loans.

D. Crop hail insurance meets the greatest need for protection for many producers. It's widespread availability over an extended period of time has satisfactorily served to protect many against the most significant risk they assume. Such participation should be logically added to that for multiple peril crop insurance when evaluating the participation in crop insurance programs.

E. A significant number of potential insureds do not believe in participation in any government program regardless of its attractiveness. A few producers feel the same way about all insurance—believing it exists solely to enrich agents and the companies underwriting it.

If one reduces the potential participation in multiple peril crop insurance to those who have great need for the protection it offers and those who have no overwhelming moral or philosophical opposition to participating in such a program, the potential market is significantly less than generally recognized.

In the United States at this time, it is my opinion that 50 percent participation in all eligible acreage really represents about 100 percent of the potential market for multiple peril crop insurance. If that is the case, current participation levels are closer to 40 percent of the potential market than 20 percent. The Board of Directors and Management of FCIC, as well as this committee and others, have been searching for the answer to the question "What will it take to reach the 60 percent or so of the logically expected business not now insured?" We need to recognize the reasons for their non participation before we can make significant gains. This group of potential clients have several reasons for non participation.

A. Many uninsured farmers say crop insurance is a low value, high priced package for their operation. Many continue to believe it is a program for the poorest farmer on the poorest land. Most are unaware of recent major changes in the program which tend to make it more attractive than they realized. They regret that no agent has recently explained the program or aggressively sought their business. Many producers fail to recall receiving FCIC advertising or promotional material except for general national print advertisements. A few were once policyholders and unsatisfied with the service received. Their opinion of crop insurance is often based upon an experience which is several years old.

B. Many producers feel they are disaster proof. They always get enough rain; they irrigate; they are diversified; they farm over a wide area. 1983 proved otherwise in a tragic fashion to many. Furthermore, many believe that if the unlikely disaster does come, Congress will bail them out with a disaster program of some kind.

C. Producers often misperceive their previous experience, and as a result base their expectations for the future upon potential rather than actual experience.

Together, we can do something about each of these reasons for nonparticipation in crop insurance. The Congress of the United States and its members can help Secretary of Agriculture Block, Undersecretary Naylor and myself by continuing to voice strong support for the Crop Insurance Program as the primary protection for producers against the adverse economic impacts of disasters which affect production. The Congress and its members need to firmly reject ill conceived alternatives to the current program. Producers need to know that the disaster assistance programs of the past are really a thing of the past. Our private sector partners in the delivery of the Crop Insurance Program need to know beyond any shadow of doubt that large capital investments in capacity to service crop insurance will not be made unproductive by a fickle Congress. This program needs stability and the wholehearted support of Congress, the Administration, and the participating private sector to succeed.

FCIC has taken steps to make major improvements to contracts being offered producers.

Perhaps the greatest task facing FCIC the past three years has been the need to design contracts and coverages which truly met the needs of producers for protection. As the contracts were revised, they were placed in an easy-to-read format to ease increased understanding of the provisions.

Most contracts include changes designed to increase the production available to producers when disaster beyond their control strikes.

For example:

1. The reduction in indemnity provision when a near total loss led a producer to not harvest his acreage was eliminated.
2. Replant provisions have been added to several policies.
3. Quality adjustments have been added to fairly reflect the reduced value of low quality production.
4. Stage guarantees, where applicable, have been increased to recognize current production costs.
5. The late planted option allows insurance protection when adverse weather prevents timely planting.

The single most significant change has been a move toward yield guarantees being based on actual production history rather than an average of a group of producers. The individual yield coverage program (IYC) is now an option to contracts other than those using what we call the grower yield certification (GYC) approach which also is based on individual production records and used for most specialized crops. In 1984, cotton and rice producers will have guarantees based solely upon individual production history (no area coverage). We expect the producers of corn, grain sorghum, tobacco, peanuts, and forage insured in 1985 to be offered only similar yield guarantees.

This change from our traditional way of doing business promises to reach a huge number of producers who have needed risk protection for years but who rejected crop insurance as a poor value priced package for their operation.

For the first time, the better than average producer is to be offered yield guarantees which fairly reflect his capability and which are equitable in relation to his less productive neighbor. For the first time, the premium rates will reflect the risks in a truly fair fashion. The loss experience of the past was based upon adverse selection and low participation rates and that experience affected rates to an unacceptable extent for many of our nation's best producers. We must have actuarial soundness! We must set rates which will generate sufficient premium income to pay the losses over an extended period of time. I am just as concerned, however, with rate equitability as rate sufficiency.

The biggest challenge facing the corporation is gaining wide understanding of the new program changes and winning the support of third parties who influence the decisions of farmers. The assistance of sister agencies like ASCS and the extension service is vital. The acceptance of crop insurance as an important part of an operating plan by the lenders financing farm operations can be a key factor in achieving greater participation. Farm managers can contribute in a positive fashion; so can Members of Congress.

The private insurance agents can have a greater impact on sales than any other group, but it will take more aggressive sales efforts than have been demonstrated to date.

My agency, the FCIC, and each of its employees are committed to providing the best service humanly possible. I believe we have shown much progress on many different fronts and that progress will be reflected in large gains in participation in the near future. I am optimistic about 1984 sales as I believe it is all coming together at about the same time.

[The following information was submitted by Richard Gibson, see p. 27 for oral reference.]

PRIVATE INDUSTRY PERFORMANCE—CROP INSURANCE PROGRAM AUTHORIZED BY 1980 FCIC ACT

The Federal Crop Insurance Act of 1980 mandated maximum private sector involvement delivering crop insurance protection to our farmers. Through private sector delivery, the Multi Peril Crop Insurance program, protecting and serving the farmer, has been greatly enhanced. The private sector delivery system is misunderstood and is now being challenged at the very time that it is beginning to work. The following milestones indicate some of the major achievements of the private industry:

1. The Private Sector Insurance Program offers protection through voluntary risk management options rather than hoping for a government bailout under the inequities of the old Disaster Assistance Program.

(a) Protection is available to more farmers on more crops than ever before. Farmers choose their own protection level.

(b) Farmers may purchase an affordable insurance rather than relying on a bailout by government disaster protection payments and low interest disaster loans.

(c) The private sector provides use of private capital and risk sharing with the government, thus reducing government outlays.

(d) The program provides farmers and their bankers with a known amount of protection before the crop is planted.

(e) Farmers can deal with the same insurance agent and policy issuing companies that provide their life, building and casualty protection.

(f) Farmer acceptance of the private insurance program is very good as evidenced by the premium volume of $12,000,000 in 1981, $75,000,000 in 1982 and an estimated $125,000,000 to $150,000,000 in 1983.

(g) Only the continued full utilization of the private sector has the option through the government to use the crop insurance program as the total low-yield disaster protection plan. Already it has permitted the elimination of the Disaster Assistance Program.

(h) A sound insurance program, administered by the private sector will reduce the abuse of government programs.

2. Prompt service is the advantage farmers most often identify in stating their preference to deal with private industry.

(a) Claims servicing for farmers by private companies is less than the 30 days required by the State Insurance Commission that regulates private companies. The industry service response time is much better than that of the government. In 1981 almost 60 percent of the government claims took over 30 days to service.

(b) Farmers are more satisfied with their dealings with the private sector as evidenced by the lower cancellation rates than those experienced by the government system.

(c) Almost 35 percent of the private industry policyholders are first time policyholders compared to about 20 percent under the government delivery system. Therefore, the private sector can best obtain higher levels of new farmer participation in the crop insurance program.

(d) More large commercial farmers are purchasing insurance from the private companies with whom they are accustomed to doing business. Many of these farmers refused to buy from the government. Participation of the large commercial farming units is essential to spread the risk, keep the program actuarially sound and premiums affordable.

(e) Farmers trust private companies and their local agents, knowing that they can take their complaints to their State Insurance Commission to regulate the company. Under the government system, the only available relief is in Washington.

3. The most effective and efficient insurance delivery system has been implemented by using the private sector.

(a) The private insurance industry has long been recognized as an example of an efficiently operated industry which the government should not be competing with or duplicating services. The financial resources of the federal government are necessary to provide reinsurance to the private companies, to cover the enormous risk of disaster protection for the multi-billion dollar crop production of American agriculture.

(b) Only credible and financially stable companies are risk sharing with the federal government, and thus minimizing the government's risk and increasing the credibility of the program.

(c) Private industry's experience and expert knowledge in developing and administering insurance programs is adding to the stability of the crop insurance program.

(d) Under reinsurance contracts, the private companies must collect all premiums on insurance they write. Thus, there are no delinquent premiums owed the government. Under the FCIC delivery program, premium collections are a problem and delinquencies in the 1982 crop year were estimated to be about 10%.

(e) The maximum utilization of private industry through FCIC's reinsurance program will, over a time, be the most efficient system of handling the crop insurance program for 1983. It is estimated that after only two years of experience, the private sector's costs may already be as low or lower than the cost of delivery of the government system.

(f) Private companies and agents are tax paying entities of the local, state and federal level. Insurance companies pay state premium taxes that average approximately 3% on the premiums written. If the private companies make any profit on their participation in reinsurance agreements with FCIC, they must pay state and federal corporate taxes.

(g) The government's delivery system failure in trying to administer nationwide crop insurance programs from 1938 to 1943 is a lesson that must be remembered.

In conclusion, I would suggest more private involvement, less bureaucratic restriction, with greater input into forms, guarantees and rates. This would result in the desired participation.

Thank you very much.

STATEMENT OF KAROL KING, REPRESENTING IOWA CORN GROWERS ASSOCIATION

First of all, on behalf of the Iowa Corn Growers Association, I thank you for this opportunity to present our views on Federal Crop Insurance.

Let me begin by telling you something I believe you already know or you wouldn't have called this hearing. Federal Crop Insurance is not sufficient to do what the administration has announced it intends it to do—replace disaster assistance. While this move may seem logical on the surface, we believe the in-

surance program now in place simply does not address the basic economic problems of modern farming.

For ease of calculation, let's assume a 100-acre farm planted entirely to corn. We're talking about a good farmer, so he's established his yield under the Individual Yield Coverage Program at 140 bushels per acre. But the most he can guarantee is 75 percent of that yield, which is 105 bushels per acre. That, times the maximum price allowable of $2.70, means he has the potential of collecting $283.50 per acre from the insurance. The cost in Iowa averages around 4 percent, so the premium would be $11.34 per acre—or $1,134 for the farm.

This past summer saw the worst drought in years, but the statewide yield is still estimated at 85 bushels per acre. That's about a 30 percent drop from last year's 121 bushels per acre. To keep things easy, let's say our grower saw his yield cut to 100 bushels per acre. He's eligible to collect $1,350 (5 bushels per acre x 100 acres x $2.70 per bushel) on his insurance, which cost him $1,174.50 for a net payment of $175.50.

Now, let's suppose the farm was entirely wiped out. Our farmer would collect $28,350, minus the premium payment of $1,174.50, or $27,175.50. That, as they say, is certainly better than a poke in the eye with a sharp stick. However, figures from Iowa State University show the total(fixed and non-fixed) cost of producing 140-bushel corn on previous corn ground is about $378 per acre. That means our grower lost $10,624.50 for his work ($37,800 minus $27,175.50).

I ask you, Senator Jepsen, is that really "insurance?" Would you buy it?

This insurance is being touted as just another production cost. But other optional production purchases are for things expected to boost yields and potential profit. In this case, what is our grower to gain for his $1,134 in "production costs?" Actually, money from the better production area is used to subsidize the more frequent disasters in the poorer production areas.

This insurance is also called "good business." But remember that corn growers, like other businessmen, are already insuring their assets—such as machinery and buildings—against fire and theft.

A crop to a farmer is like socket wrenches to a hardware store owner. It's inventory. If some of it disappears, it should be replaced. That's what insurance should do, cover the cost of replacement.

Therefore, the Iowa Corn Growers Association believes it's time to look at insuring profit, not part of the production costs. Let's face it, farmers can no longer get along by making money on an occasional crop. As individual businessmen, they need to know there will be profit coming in every year. And unlike other individual businessmen, they cannot pick the price they want for their products.

We don't expect such a thing to happen overnight. So in the meantime, we urge you to allow growers—either through change in this program or through some form of supplementary policy—to insure at least 90 percent of their crop, with appropriate premiums, of course .

In our earlier case, if the grower had insured 90 percent of his crop—a 126-bushel yield guarantee, it would have cost him $1,360 at the same 4 percent rate. But the 100-bushel yield would have paid him $7,020 in insurance, for a net gain of $5,660. Had he been wiped out, he would have collected $34,020 minus the premium, or $32,660. That's still below the $37,800, but it comes closer to allowing him to survive.

We also urge you to use some of the money saved from reduced disaster payments to further subsidize premiums until the program can be made truly attractive to all growers.

And finally, we urge you to reconsider the elimination of Federal disaster programs. A widespread drought like the one experienced this past summer is just as unpredictable and just as damaging as a hurricane. Likewise, it should produce similar assistance from our Federal Government.

APPENDIX 1: FCIC COMPUTATIONS ON ONE-ACRE SAMPLE CASE

Established yield is 140 bu/acre.
Guaranteed yield (maximum 75 percent of established yield) is 105 bu/acre.
Maximum price protection (105 bu/acre × $2.70) is $283.50/acre.
Premium cost at 4% of $283.50 is $11.34/acre.
Actual yield is 100 bu/acre because of drought.
Insurance (guaranteed 105 bu/acre minus actual yield of 100 bu/acre) pays on 5 bu/acre, or $13.50.
Subtract premium of $11.34/acre leaving net insurance payment of $2.16/acre.

STATEMENT OF LESLIE S. MILLER, AG LOAN OFFICER, DAVIS COUNTY SAVINGS BANK, BLOOMFIELD, IA

I appreciate the opportunity to present an agricultural lender's observations on Federal Crop Insurance and some of the changes I feel are necessary for the program to better serve my farm customers.

In the seven years I have spent as an agricultural loan officer at the Davis County Savings Bank, I have had the opportunity to experience wide fluctuations in the weather patterns of Davis County—from a drought in 1977 when corn averaged 50 bu., to the good harvests of 1978, 1979 and 1980 when corn averaged 108 bu.; from the two extremely wet years of 1981 and 1982, when wet weather delayed planting and made it difficult to put up hay; to the extremely dry year of 1983 when corn averaged less than 20 bu/acre.

Through these years, Federal Crop Insurance should have been protecting Davis County farmers. Federal Crop Insurance should have been stabilizing the income and economy of Davis County through these hard years. Nothing could be further from reality.

In 1977, Federal Crop Insurance was not yet available in Davis County. The first few years crop insurance was available, the program was grossly inadequate. Problems in the early introductory years so alienated some Davis County farmers they refused to consider crop insurance as a risk management tool. Fortunately, there have been many changes since crop insurance became available in Davis County. However, it takes time for farmers to learn of these changes and evaluate them in terms of their own operation. For a lot of Davis County farmers, time ran out in 1983.

As a result of the drought of 1983, many farmers have come to the same conclusion as their lenders—that Federal Crop Insurance can be an excellent risk management tool, provided adequate coverage can be obtained at a fair price. However, the drought of 1983 also brought attention to the many problems of Federal Crop Insurance. Examples of the inadequacies are:

(1) The beginning farmer who insured at the highest price and the highest level, but because of low yield classification on his land, he still does not have adequate cash flow to meet all his operating expenses—not to mention his inability to service machinery and real estate debt.

(2) The livestock producer who is faced with the prospect of selling large portions of his breeding livestock at low prices because he has no money to buy hay at 100–130.00/ton, or else because they are open and he cannot afford to carry the open livestock.

(3) The irate farmer who thought he purchased more coverage than he did, but because he was so confused during the salesman's presentation, he signed up for the wrong coverage.

(4) The angry soybean grower, who had the worst year ever, and still had yields above the guarantee level and thus feels he "threw away" his premium money. And finally,

(5) The lucky farmer "who had the feeling it was going to be a dry year," and went ahead and bought Federal Crop Insurance even though he didn't understand what he was buying and didn't really care for the program.

Indeed, one of Federal Crop Insurance's biggest obstacles is this lack of knowledge and enthusiasm about the programs. Part of this problem stems from the fact that Federal Crop Insurance is now being sold through private insurance salesmen. Although most of these people have a sincere desire to serve people in their community, the commissions from these sales are so low (in relation to the time involved in explaining and selling the programs) that Federal Crop Insurance sales are rarely profitable to them. Thus, I would suggest that the method of selling Federal Crop Insurance should be changed.

One way of improving the selling incentive would be to increase the commissions received by the salesmen. However, I would not recommend such a change, in that increased commissions may ultimately increase the insurance cost to the farmer. Rather than have this happen, I would much prefer to see the local A.S.C.S. Offices return to selling Federal Corp Insurance.

The people who staff these A.S.C.S. offices are very knowlegeable about agriculture and the administration of government programs pertaining to agriculture. They are also good at working with their own staff, and the staff of the county extension service, in teaching and promoting new or existing government programs.

Another reason I would prefer to see A.S.C.S. handling the Federal Crop Insurance Program is due to their extensive crop histories on the majority of farmland in each county. Since the A.S.C.S. records may now be used in compiling crop yield data for F.C.I.C., it appears it could simplify the insurance process by having most of the information available in one place. I also feel that farmers should be allowed a choice as to whether they would prefer to insure crops using A.S.C.S. established yield levels or their own proven yield levels. This should be a one time "election" enforced until such time as the operation may change hands. This would allow a farmer, who feels his A.S.C.S. established yields are satisfactory, the freedom to use this information rather than struggle to prove his yields. It would also simplify matters for livestock producers who may be unable to prove their yields due to prior feeding practices. The only exception I would make to the "one time election" would be for those farmers who would like to use proven yields and would need a period of three years to compile records. Rather than have them be underinsured (or not insured at all) I would recommend they be allowed to use established yields until such time as they can prove their yields.

Another change I would like to see in the Federal Crop Insurance Program would be the addition of an 80 or 85 percent level of coverage. My reasons for this increase are twofold. First, young operators who are trying to get started in farming often need to remove as much risk from their new operation as possible. Second, Farmer's Home Administration emergency programs are designed to take effect when one's individual production is less than 80 percent of normal levels. Thus, if we truly want the Federal Government out of the "disaster loan and disaster payment business," we must fairly provide producers with an alternative that would equal or exceed any levels where FHA programs would start. If F.C.I.C. administrators feel it would be too costly or confusing to add a fourth level of coverage, then I would recommend they either drop the 50 percent guarantee level or use one price election (based on loan or target prices) to alleviate the problem.

I would also like to see expansion of coverage by Federal Crop Insurance to pasture and hay ground in Davis County (and other counties similar to Davis County). I feel expansion of coverage to insure hay and grass production is justified in counties with terrain similar to Davis County. If we do not have this type of coverage available, then only 110–120,000 acres of the 311,300 acres of farmland in Davis County would be covered by insurance—less than 40 percent of the land in the county. This seems particularly unfair when counties like Humboldt County, Iowa now have, and would continue to have, Federal Crop Insurance available on 245–250,000 of their 267,000 acres of farmland—over 90 percent of their land base. This does not appear to me to be particularly equal treatment. Some people may try to equate this problem by pointing out that Humboldt County land is higher priced than Davis County land. Using 1982 SRS statistics we find the average value of land in Humboldt County as $2,509.00/acre and in Davis County as $1,035.00/acre. However, if we equate these values on a tillable acre basis, we see that Humboldt County land costs $2,736.00/tillable acre and Davis County land costs $2,607.00/tillable acre. This is not much difference when one considers that in 1982 SRS reported an average corn yield of 131 bu/acre in Humboldt County and only 95.6 bu/acre in Davis County.

The need for hay and grass production insurance becomes even more important when one examines the aggregate cash receipts of Davis County farmers and realizes that in a normal year they may receive $21 million from grain sales and $20 million from livestock sales. Of the $20 million in livestock sales, roughly 11.5–12 million comes from our beef, dairy and sheep enterprises. Thus, over 25 percent of our annual income is dependent on the forage production of the county. Therefore, I would recommend Davis County for coverage similar to that allowed in North Dakota on hay production and forage seeding.

There is not time to sufficiently detail the entire hay production and forage seeding program they are starting in North Dakota. I will merely point out that on established hay ground an examination is made of the hay ground in the fall and signup occurs at that time. If there is not an adequate stand at that time, any shortfalls are noted so that coverage may be adjusted accordingly. There are three guarantee levels of insurability, 50 percent, 65 percent, and 75 percent, and three price levels, $30.00, $40.00, and $45.00/ton. In determining what normal yields should be, they use S.R.S. figures for the county and then adjust them according to soil type, and management practices.

In addition, Davis County producers should be able to utilize the forage seeding program to eliminate some of the risk involved with establishing a new seeding. This is particularly important since the cost of establishing a new seeding will often exceed the cost of planting beans and may even approach the cost of planting corn. The North Dakota program allows for spring seeding using a limited amount of seed for a nurse crop. Then, the following spring the new stand is examined and if it is found to be less than 75 percent of adequate, payments will be made (up to a maximum of $30.00/acre). Thus, by receiving a payment, it would give the producer the capital necessary to re-establish or interseed his stand.

In addition to these two programs, I would recommend the addition of a pasture insurance program for Davis County and other counties with similar terrain. This program could probably be based on animal unit/month capacity which is a measurement of a pasture's ability to feed livestock over a period of one month. Thus, pastures could be examined to determine what expected animal unit/month capacity they would carry and whenever actual animal unit/month carrying capacity fell below 75 percent of this level, payments could be made. The funds from these payments would allow the producer to then rent additional pasture to supplement his own or else buy hay to feed his livestock.

While the previously mentioned programs appear to be needed immediately in counties like Davis County, I can also perceive a future need for an insurance program that would involve livestock. While these programs may be more difficult to develop and administer, I urge you to give them serious consideration since the livestock producer may be as adversely affected by weather as the row crop farmer. The effects of weather were very apparent in Davis County this year when many calves and lambs were lost in the mud and wet weather of the spring. It is even more apparent now when 25–30 percent of the cows are open due to the sumer's heat.

I also ask that consideration be given to restructure the premium cost of Federal Crop Insurance. Rather than starting out at a moderate level and then discounting for good experience, I feel the premium should start at a low level and increase when there has been a history of frequent indemnity payments—which could be indicative of poor management. By having a low beginning premium, it would encourage more participation, as well as help beginning farmers by keeping their operating costs down.

As I stated earlier, Federal Crop Insurance has the potential to be an excellent risk management tool. However, for it to become widely accepted by farmers and farm lenders, it must change from it's present form so that it may better answer the needs of today's diverse agricultural enterprises. I ask that you carefully consider these needs for improvement and expansion of the Federal Crop Insurance Program.

STATEMENT OF ROGER D. ENGELKES, EXECUTIVE VICE-PRESIDENT, GRUNDY NATIONAL BANK

My name is Roger D. Engelkes and I am Executive Vice-President of the Grundy National Bank of Grundy Center, Grundy County, Iowa. I have been associated with the Grundy National Bank for sixteen years and presently head our loan department which is primarily made up of agricultural loans. In addition, I am presently the chairman of the Iowa Bankers Association Agriculture Committee.

I believe some background of the area I serve is necessary so that you might understand how the Federal Crop Insurance program is viewed in our area. Grundy County is fortunate to be located in north central Iowa with excellent soil types and stable annual rainfall. In addition, agriculture in our area consists primarily of cash grain farms. We do have some hog feeding, but limited cattle feeding. Year in and year out, we experience some excellent yields for both the production of corn and beans. Partially due to good soils and consistent rainfalls, our area has a great number of commercial seed corn and seed bean companies.

It should be noted while we did feel some limited effects of this year's drought, we again experienced good yields in corn production and average or above the the production of soybeans. For this reason, I do not feel that I can answer Senator Jepsen's questions as to the adequacy of the program to cover losses and the related paperwork from a personal standpoint. However, I should point

out that my contacts with bankers located in drought areas this year have indicated a disappointment in the coverage of the program. Most bankers felt the only time Federal Crop Insurance really paid was in the event of a complete crop failure. They are now questioning if that is true due to the delays and poor experiences they have had with the program to date. In addition, they indicate the paperwork takes a great deal of time and patience to complete.

In response to Senator Jepsen's question on how the program might be improved, I believe a review of the primary objections to the program as it exists today might be helpful. Some of these objections include:

(1) Land classifications are inadequate or misclassified. More work needs to be done to insure that all land is properly classified and not grouped together without some visual inspection.

(2) In our area, most yield levels are too low and the process to change those yields are too cumbersome or impossible to achieve.

(3) Different fields are put into one unit and then averaged. They should be covered like hail insurance where you are paid based on the loss experienced in each field.

(4) The hail deletion credit is inadequate, particularly in our area, where hail is the primary cause of crop failure.

(5) The program in Iowa does not include hay and pasture ground.

(6) The program seems to be confusing and cumbersome and turns farmers off from the start because it is difficult to understand. In addition, some of the representatives for Federal Crop were inadequately prepared to explain and administer the program.

In conclusion, let me say it appears that farmers have been reluctant to participate in the program for the reasons stated above. There no doubt are more, but these are the ones I hear most frequently.

It is my opinion that the Federal Crop Insurance program should be a risk management tool to agriculture by providing good coverage at a reasonable price.

I believe this can be done through hearings such as this which are designed to make constructive modifications and changes to the program. I don't believe the Federal Government can step in everytime agriculture is going to fail because of the weather, but an understandable program at fair prices could be a tool whereby the farmer is willing to pay the premium to protect his operation from such forces.

I appreciate the opportunity of testifying before the Senate Agriculture Committee. I hope my testimony has been constructive and has helped shed some light on the problems of this program. Let me say that I would be willing to provide any additional help or testimony that you might wish in the future.

STATEMENT OF JACK PARSONS, FARMER, LOUISA COUNTY, IA

It is an honor and privilege, Senator, to present my views on Federal Crop Insurance at this hearing. I am Jack Parsons, a farmer from Louisa County, Iowa.

There have been some improvements in Federal Crop Insurance in the last few years, but 16 percent participation cannot be considered a success even with a stretch of the imagination. I wish to present the following recommendations:

1. Use ASCS established or proven yields instead of the block area method used now.

2. Require all farms to establish a proven yield within four years for Federal Crop Insurance.

3. The Federal Crop Insurance Program be administered by ASCS county offices.

4. All premiums be within a reasonable rate for high and low risk farms.

5. Each farm, as listed on ASCS records, be insured individually.

Summary

If ASCS established or proven yield is used for each farm, the loss and benefits would be determined from that farm's productivity.

Example: You can have farms in an area block with established yields ranging from 100–150 bushels per acre. If Federal Crop Insurance set the yield for the block area at 110 bushels and insured at 70 percent of the yield, the producer in

this area block would be guaranteed 77 bushels per acre. Therefore, a farm with 100 bushels established yield would receive benefits with a 25 percent loss, and the farm with 150 bushels established yield would have to have above a 50 percent loss to receive benefits.

If proven yield were required in four years, the above problem would not be possible. It will take four years to establish a proven yield.

If Federal Crop Insurance was administered by ASCS, the administrative cost would be cut as ASCS has office space, personnel and farm records to effectively administer the program. They would advise and help the producer establish his proven yield. ASCS has proven their ability to obtain high participation in farm programs over the last 30 years.

The above recommendation has been proven to be a success as a pilot project in Davis County, Iowa, for approximately 5 years and their participation allowed them to operate "in the black" without government assistance. In checking Davis County records, you will find that the premiums were divided into three categories, each carried their own weight and were reasonable premium rates. If established or proven yields were used, the extreme variance in the amount of premiums that we have today would not be necessary.

This program would have been implemented but private insurance companies persuaded Congress that they could do a better job and that government was interfering in private business. I state again that 16 percent participation is a long ways from success.

With the improvements that have been made in Federal Crop Insurance since the pilot program was abandoned and if the above recommendations were used, I sincerely believe the program could be a success.

If participation is high the program will work; with small participation no program will work.

The insurance program must be fair and equitable and without gimmicks (lack of moisture not a reason to pay benefits, excess moisture not a reason to pay benefits, $30.00 premium, 40 bushels yield) to discourage participation to accomplish the goal necessary to make the program a success. I could elaborate on that point, but we do not have the time today, and if you wish, I would send clarifying statements at a later date.

If you believe that the program cannot be improved to better participation, then I would recommend abolishing Federal Crop Insurance and reinstating the disaster program as a part of the payment for participation in future farm programs.

STATEMENT OF BOBBIE WAGGONER, ASSISTANT DIRECTOR, DES MOINES FIELD OPERATIONS OFFICE, FEDERAL CROP INSURANCE CORPORATION

I want to thank you, Senator Jepsen, and your committee members, for the invitation to testify at the Senate Agriculture Sub-Commitee hearing to express our concerns regarding the Federal Crop Insurance program. I am representing the Des Moines Field Operations Office which geographically is responsible for the State of Iowa. The information we are providing for the record pertains to Iowa as we are not furnished national Federal Crop Insurance statistics.

The Federal Crop Insurance Act was initially legislated in 1938 to help stabilize and protect the economic stability of agriculture and the nation's economy. The Corporation was also mandated to maintain an actuarially sound insurance program whereby farmer-paid premiums would be utilized to pay crop losses due to unavoidable causes beyond a farmer's control. This program, however, had many limitations involving states, counties and crop programs on which the Corporation could offer insurance protection. The Federal Crop Insurance Act as amended October 1980, with bi-partisan support, mandated the same basic insurance fundamentals that the 1983 Act contained, but further declared Crop Insurance as the disaster protection vehicle of the future. The new legislation provides for rapid expansion to cover all crops in all locations nationwide, subsidized premiums and the opportunity to involve the private insurance sector.

Beginning in the 1974 crop year, as you will see in the table that I am providing with the copy of my presentation, the premium income in Iowa was almost $5 million. From the 1974 crop year up through the 1981 crop year the premium income, you will note, showed an increase every year, with substantial increases beginning in the 1977 crop year and for the 1980 and 1981 crop years. However, as you will note, Senator Jepsen, the premium income for Iowa decreased to $29,400,466 for the 1982 crop year, and $15,058,201 for the 1983 crop year. We

are of the opinion that some of the reasons for the decreased participation in the Federal Crop Insurance program are as follows:

1. Misunderstanding about the insurance concept of protecting out-of-pocket cash outlays.
2. Farm diversification and farmers' overconfidence regarding potential risks faced.
3. Other disaster programs being utilized as a form of insurance.
4. The reduction of acreage due to the PIK program participation.
5. Lack of experience on product knowledge by the agent delivery system.
6. Since crop insurance is unique in that it is optional, it must be presented and sold as the major disaster protection available.
7. Lack of understanding on the part of lending institutions on the collateral value of crop insurance and its use as a farm management tool.
8. Limited time and physical resources for rapid expansion, resulting in less than satisfactory service to farmers.

We are very optimistic that the Federal Crop Insurance program will experience a large increase in participation for the 1984 crop year. Farmers are showing an increased interest in the program due to crop disasters during 1983; lending institutions are recognizing the need for crop insurance as collateral when making farmer operating loans; a sincere effort and commitment between ASCS, FmHA, Cooperative Extension Service and Federal Crop Insurance, all of whom deal with farmers, in helping to share the education process; a renewed commitment on the part of the private insurance sector in educating themselves on the FCIC program; basic policy improvements of importance to all agricultural producers such as (a) new policy with more easily understood language, (b) increased price elections on several commodities, (c) elimination of guaranteed bushel reduction for unharvested acreage, (d) replant features for corn and soybeans and (e) implementation of common policy provision dates.

One of your concerns, Senator Jepsen, is, "What can we do to improve coverage and lower the cost of the insurance?" The Federal Crop Insurance program presently has a direct subsidy under which 30 percent of the premium for the program at the 50 percent and 65 percent levels is paid by all taxpayers. At the 75 percent level, the subsidy that the farmer receives amounts to approximately 20 percent. Farmers may qualify for good experience discounts on their premium, not to exceed 50 percent. Hail insurance can be purchased from a private company and deleted from our policy with an additional premium reduction. The administrative cost of the program is not included in the base premium and therefore is not paid for by the farmer participant. As a general rule, the administrative cost in Iowa has been 8 percent. The direct savings to the insured farmer presently amounts to approximately 35 to 40 percent, depending upon the level the farmer chooses. In view of this, it does not appear to be fair to expect taxpayers to pay further subsidies in addition to the subsidy that is already being paid.

In addressing the issue of improving coverage, we are very pleased and feel very confident that the new Individual Yield Coverage program will be the answer to that particular problem, for the most part. This program does allow the farmer, through the process of proving his own yields over a minimum of three years, to avail himself of additional coverage depending upon his own individual production records. All local ASCS county offices are assisting Crop Insurance with the certification of farmer records. We will continue our efforts to provide each ASCS office with program information so that they too may better serve the farmer.

It has been brought to our attention on some occasions that the amount of paper work involved to administratively handle and service the Federal Crop Insurance program is excessive. We believe that possibly this issue is raised as a result of comparing the paper work involved in this program with hail insurance. If that is the case, this seems understandable, since hail is a single cause of loss and does allow for identification of a one type risk, whereas the Federal Crop Insurance program covers many, many different losses from various causes, such as blight, hail, drought, insects, excess moisture, frost, etc. As a result of these multiple risks that the farmer faces, it is necessary to have this multiple peril, or all-risk type program and does necessitate a more complicated program, more extensive training, and by its nature requires some additional paper work. Steps are being taken to reduce and, wherever possible, eliminate, the problem of paper work, and we welcome all suggestions for further reductions.

I would like to identify some positive steps that have been taken along this line, one of these being that we have gone from the single crop application to a multi-

crop application. In addition, we now have the availability in our office of a direct communication line with the computer base in Kansas City. This capability saves time spent in research and allows for faster response time to insureds. We are continually communicating with private industry, and they with us, on identifying areas where efficiency and uniformity can be accomplished by all involved.

In Iowa, we have a great variety of crops, soil types, practices, etc. We certainly see the need for additional agricultural insurance programs and are hopeful that our testimony will provide insight for policymakers and the Corporation to offer these types of programs in the very near future. We realize the program is not currently offered to livestock producers, nor on hay, forage and seed corn crops. A seed corn pilot program is now in its second year in some counties in Illinois and it appears to be successful. This program is expected to expand in the 1985 crop year. Iowa is a major seed corn producing State, and hopefully it will be included as an insurable crop when further expansion takes place. The Corporation has also set up a pilot prevented planting provision in a few counties throughout the nation. I am confident that the Corporation would welcome ideas and expertise for expansion of this program. Popcorn will be an insurable crop in three western Iowa counties for the 1984 crop year, and sweet corn will be insured in a limited number of counties in north central Iowa. Producers of apples and dry edible beans have also expressed an interest in an insurance program for their crops.

For 1984, the Corporation will utilize all resources available to hold educational meetings for farmers, lending institutions, other USDA agencies and all other interested agriculture-related groups, in order that they may better understand the Federal Crop Insurance program, make a decision regarding protection and avail themselves of the opportunity to learn how to acquire maximum insurance coverage for each premium dollar spent based on individual need. We feel it behooves each of us that are involved in Iowa agriculture to communicate and cooperate fully with one another for a common goal of providing the very best insurance program to the farmers whom we serve.

Again, we appreciate the opportunity to testify at this hearing, and want to assure you we share many of your concerns for the farmers of Iowa.

Iowa premium income—1974 through 1983

Crop year:	*Premium income*
1974	$4,967,823
1975	7,838,247
1976	12,919,363
1977	16,090,919
1978	16,232,143
1979	16,383,970
1980	18,875,023
1981	39,909,470
1982	[1] 21,177,466
	[2] 8,223,000
Total	29,400,466
1983	[1] 6,886,201
	[2] 8,172,000
Total	15,058,201

[1] FCIC.
[2] MPIC.

STATEMENT OF JANET A. KINNEY, ALDEN, IA

Thank you for the opportunity to respond to your request for answers and possible or potential solutions regarding the level of farmer participation in the FCIC Program in Iowa.

Rather than respond to what is wrong, I would prefer to address what is RIGHT with the FCIC Program. In light of the drought problems experienced in various parts of Iowa this year, it would seem appropriate to focus on some of the strengths and also some of the methods in which a farmer can utilize the FCIC Program.

Participation in the program might be a result of today's agricultural economy. The borrower and/or lender may not have been able to justify or to continue to justify the premium expense.

But, maybe we could take a lesson from Iowa's hospitals which have been accused of "cost shifting." Decreasing the amount of money now spent for fertilizer, chemicals, or seed might be an alternative to the cost per acre for federal crop insurance premiums. Of course, the costs of planting are going to vary in different areas of Iowa as are the costs for FCIC premiums. But let's take a hypothetical example of a 6 percent reduction on each $100 in planting costs. If a farmer would spend—

$50 on fertilizer, $25 on chemicals, and $25 on seed, for a total of $100, the 6 percent will equal $6.00.

For every $10,000 a farmer has in costs, the 6 percent reduction would give him $600 to apply towards FCIC premiums.

Seed, chemicals, fertilizer and just plain crop/hail insurance costs have increased dramatically, but at the same time, those expenditures WILL NOT guarantee a farmer a crop. A production guarantee insurance policy which covers 30 perils would assure a farmer, even in a year of total crop destruction, a loss of possibly no more than 25 percent of the average gross income.

I sit at my desk and write out checks for fire insurance on the buildings and house, and hope and pray we will never collect. Checks are also written for hospitalization and life insurance; farm, automobile and business liability. We hope we never have to fill out a claim form. And how many of us receive discounts of up to 50 percent on our insurance premiums if we have few or no losses? This benefit is included in the FCIC policies. Also, this premium is subsidized by the government 30 percent.

Drought, frost, flood, insects, windstorm, hail and plant disease have had an impact on crops in Iowa, for the last decade or more. Because of drought this year, we have seen an increase in the price of corn and soybeans. If a farmer had federal crop insurance, he would be protected if he wished to forward contract or hedge a portion of that part of his crop which was insured while his crop was still standing in the field.

Planting a crop is a lot of money to invest, a lot of money to risk, whether it's the farmer's own capital or whether it's borrowed money that must be repaid with interest. An investment equal to five or more years profit is required every time we plant a crop.

I would like to close by drawing your attention to the cartoon below that appeared recently in the Des Moines Register. As you question the viability of the current FCIC Program, please also examine its virtues. A reasonable approach to increase Iowa's level of participation in the program might be to start by making relatively elemental changes.

STATEMENT OF MICHAEL LAUGHLIN, OAKLAND BANSHARES

IDEAS FOR BETTER ACCEPTANCE OF MPCI

Some of the ideas that I would like to see happen :

1. The need to eliminate double marketing system.
2. The inefficiencies are : Paper flow—not timely.

INADEQUATE ADJUSTORS CLAIMS—FILES OUT

3. The IYC program should be in hands of company, ASCS should be out of procedures.
4. CHIAA should be more involved in actuarial, etc.
5. More buyer (Farmers) Education—IYC.

6. Government guarantee of premium (%) would help companies be more aggressive. MPCI access to dollars farmers have coming through other government programs is needed.
7. Companies should he consulted on changes rather than advised of changes.
8. A premium discount for combination units.
9. More Co-op advertising.
10. Eliminate disaster payments where insurance is available.
11. Re-evaluate IYC goals of '85 and '87.
12. Decentralize NSO to 4–5 offices.
13. FOO (and FAO) Co-operation.
14. More emphasis on Hail and Fire deletion.

WHAT MPCI HAS ACCOMPLISHED WITHOUT FCIC'S HELP

1. Processing of claims is much faster (1–2 weeks as compared to 30 days).
2. Eliminate paperwork—Apps & Acreage Reports are same.
3. Faster turnaround on all paperwork.
4. We can make a decision now, not wait 3 months for it to go through the bureaucratic process.
5. Billings go out on time.
6. Made great steps forward, Actuarially, through CHIAA.
7. Developed "Cash Flow" sales approach.
8. Developed clear, concise agent's manual.
9. We pushed to aid of unharvested guarantee, aided in getting "replant" and "substitute crop" provisions cleared.

O